CITY OF CHICAGO
2011 LOW-INCOME HOUSING TAX CREDIT
QUALIFIED ALLOCATION PLAN
(Approved as of April 19, 2011)

I. INTRODUCTION

A. General Information

The Low-Income Housing Tax Credit Program (the "*Program*") was instituted by the Tax Reform Act of 1986, as set forth under Section 42 ("*Section 42*") of the Internal Revenue Code of 1986, as amended (the "*Code*"). Section 42 authorizes local housing finance agencies to allocate Low-Income Housing Tax Credits ("*Tax Credits*") to qualified rental housing developments. The City of Chicago (the "*City*") administers the Program through its Department of Housing and Economic Development (the "*Department*").

This low-income housing tax credit qualified allocation plan (this "*Plan*"), as required under Section 42(m), establishes the priorities and selection criteria for the allocation of Tax Credits by the Department and administration of the Program until a subsequent allocation plan has been adopted by the City or until such time as the Program is terminated. Future amendments to this Plan will be initiated to reflect changes instituted by law and the Internal Revenue Service (the "*IRS*") and to reflect changes in the City's priorities and selection criteria in connection with the allocation of Tax Credits. Such amendments to this Plan were made as a result of the *Housing and Economic Recovery Act of 2008* which was signed into law on July 30, 2008 (the "*2008 Act*"). The 2008 Act contains the most significant changes to the Program since its inception in 1986. The Department will evaluate applications for Tax Credits based on requirements of federal legislation and the Department's priorities and selection criteria. Adherence to these requirements is mandatory.

The Department is unable to provide legal or tax advice as it relates to the Program. The Department encourages applicants to seek counsel in matters related to the use of Tax Credits.

B. Purpose and Goals

The Department will administer the Program in a manner which encourages the creation and preservation of low-income housing units. Successful applicants will receive a conditional Tax Credit reservation based on the determination that the undertaking is compatible with the goals of the Department. With regard to the Department's selection criteria and preferences referenced in this Plan, when the Department announces a Tax Credit application round, it may elect to establish one objective or a sub-group of objectives from these selection criteria and preferences as the sole program objective(s) for that round.

C. Not-For-Profit Set-Aside

Each calendar year, the Department will strive to allocate a minimum of thirty percent (30%) of the Tax Credits for projects owned, directly or indirectly, by qualified not-for-profit organizations, as defined under Section 42(h)(5)(C) of the Code. Section 42(h)(5)(A), requires a minimum of ten percent (10%) of the City's portion of the annual state housing credit ceiling (the "*Credit Ceiling*"), as defined in Section 42(h)(3), to be allocated to projects owned by qualified not-for-profit organizations. To qualify for this set-aside, the qualified not-for-profit organization must have an ownership interest in the project, directly or indirectly, and materially participate in the development and operation of the project throughout the compliance period.

II. FEES

All fees are non-refundable. The fees set forth below will be assessed on all Tax Credit projects, except that the Department may, in its sole discretion, waive or reduce any fees or penalties imposed in connection with the Tax Credit program pursuant to its determination that such waiver or reduction is in the best economic interest of the City. In addition, there may be other fees required by the City that are not detailed in this Plan because such fees are not Tax Credit-specific fees, e.g., conduit tax-exempt bond fees, permit fees, etc.

A. Application Fee

An application fee is due upon submission of an application in the amount of $1,500.00 in connection with for-profit projects and $750.00 in connection with not-for-profit projects. A for-profit project shall mean any project which does not qualify as a not-for-profit project.

B. Reservation Fees

For projects expecting to receive Tax Credits allocated from the Credit Ceiling, a reservation fee in an amount equal to five percent (5%) of the annual Tax Credit amount referenced in the conditional Tax Credit reservation agreement will be assessed. This fee will be due upon acceptance of the Department's conditional Tax Credit reservation agreement for projects expecting to receive Tax Credits allocated from the Credit Ceiling.

C. Carryover Allocation Fee

For projects expecting to receive Tax Credits allocated from the Credit Ceiling, a carryover allocation fee of $250.00 is required for a project not placed-in-service in the year Tax Credits were reserved, but which meets the ten percent (10%) expenditure requirement described in Section III. H.2. This fee is due upon submission of a request for a carryover allocation of Tax Credits.

D. Compliance Monitoring Fee

Section 42 requires Tax Credit allocating agencies to monitor projects for compliance with the Program requirements. These requirements apply to each building in a project for which Tax Credits have been allocated. An annual monitoring fee of $25.00 per unit (non-Tax Credit units and Tax Credit units) will be charged to cover the cost of this compliance monitoring.

E. Compliance Monitoring Late Fee

A penalty of $20.00 per unit (non-Tax Credit units and Tax Credit units) will be assessed for each occurrence of a late submission of compliance monitoring information.

III. TAX CREDIT RESERVATION PROCESS

A. Application Process and Funding Rounds

An application for Tax Credits may be submitted for a project by the entity which shall be the owner of the property for which the Tax Credits are being sought, or by a related sponsor entity acceptable to the Department in its sole discretion (the "Owner"). Public agencies may also apply for Tax Credits in connection with a project and may designate an Owner to be determined. The conditional Tax Credit reservation agreements are not assignable without the prior consent of the Department. The Department will review Tax Credit applications through a two-stage application process. The first stage of the application process is a competitive application funding round for all projects applying for an allocation of Tax Credits from the Credit Ceiling. This first stage of the application process will include a preliminary assessment of a project, including its ability to meet the mandatory selection criteria and preferences required under Section 42, its adherence to HED underwriting standards, and its community impact, housing need fulfillment, economic feasibility and developer capacity.

Applications for Tax Credits generated from tax-exempt bond financed projects may be submitted outside of the competitive funding round process. However, such projects must meet the same requirements as projects applying for Tax Credits from the Credit Ceiling. In addition, the same application is required for projects anticipating generating Tax Credits from tax-exempt bond financing as is required for projects applying for Tax Credits from the Credit Ceiling. The Department may permit, in its sole discretion, an Owner who initially submits an application in connection with a project that anticipates generating Tax Credits from tax-exempt bond financing to later compete, during a competitive funding round, for Tax Credits from the Credit Ceiling, if the financial structuring has changed for such a project. In addition, the Department may permit, in its sole discretion, an Owner initially submitting an application for an allocation of Tax Credits from the Credit Ceiling for a project to subsequently revise its financing structure to include Tax Credits generated from tax-exempt bond financing instead of from the Credit Ceiling.

For all projects, the second stage of the application process will include an in-depth underwriting of a project's financing, construction documentation, and a determination of readiness to proceed. Reservations of Tax Credits for Credit Ceiling projects are contingent on several factors including, but not limited to, the acceptability of the application and its supporting documentation. If a project is approved to receive a reservation of the Department's allocated credits, the Department may reserve those Tax Credits from its current calendar year's Credit Ceiling or a future year's Credit Ceiling at its discretion. If Tax Credits are returned to the Department, the Department may allocate Tax Credits to the same project without the project going through another competitive application funding round. The Department may open competitive application funding rounds that may be limited to one or more of its housing preference categories at its

discretion.

1. Stage One Multifamily Application Submissions

   An Owner must submit to the Department an application for Tax Credits on the form provided by the Department (the *"Stage One Multifamily Submissions"*). Individual applications are to be completed for each project. Separate applications are not required for each building comprising part of a project. The application will request information, including, but not limited to, the parameters of the project, the context and impact of the project on the surrounding community including its relationship to plans for redevelopment of the community and investments planned or under way by others, quality of design, leveraging of city resources, the capacity of the development team, and the economic feasibility of the project. The Department staff will review all applications for completeness, project eligibility, and compliance with selection criteria and preferences. The projects that best meet the selection criteria and preferences defined in Section III.E. will be invited to proceed to stage two of the Tax Credit application process (the *"Stage Two Multifamily Submissions"*).

   The Department may issue the invitation to complete Stage Two Multifamily Submissions to applicants requesting Tax Credits up to or greater than 100% of the City's portion of the current calendar year's Credit Ceiling. The reservation of Tax Credits is based on the successful completion of Stage Two Multifamily Submissions, on a mutually agreed-upon schedule.

2. Stage Two Multifamily Application Submissions

   During the Stage Two Multifamily Submissions, the Owner will provide architectural drawings and specifications and detailed documentation regarding the proposed construction of the project, development team information, development and operating costs, financing commitments, Tax Credit eligibility and calculation, and the development time schedule. Upon review and approval of this documentation, the Department will prepare a conditional Tax Credit reservation agreement. An Owner who is unable to complete the Stage Two Multifamily Submissions and documentation based on a mutually agreed-upon schedule may not receive a conditional Tax Credit reservation agreement.

B. Application Forms and Documentation

All applications must consist of a fully completed, executed original application and two copies of all the related supporting documentation as set forth for each application stage on the below chart. Please see the Department's web site www.cityofchicago.org/hed for the application and application instructions. Any application, and related supporting documentation, deemed incomplete at the time of the funding round submission deadline, at the sole discretion of the Department, will be returned to the applicant.

	Stage 1	Stage 2
Project description, address, evidence of site control in the name of the Owner or a realistic plan to obtain site control that includes a description of steps to be taken and a time frame to gain site control, plans for provision of off-street parking, unit mix, projected building rents, preliminary operating expense budget and explanation of how the project meets the housing needs in the City.	X	Final
Description of the project's conformance with local community redevelopment efforts, and relationship to investments by others, including the City; use of existing housing as part of a community revitalization plan; impact on the community; evidence of community input and support for the project; and a map of the surrounding area showing redevelopment activity and public and commercial uses which would serve the project.	X	
A comprehensive third-party market study that satisfies the Department's guidelines for such studies which demonstrate the housing needs of low-income individuals in the area to be served by the project and supports proposed rents and absorption assumptions.	X	
Description of the construction or rehabilitation, including the historic nature of building(s) to be rehabilitated, scope of work and cost information, including sources and uses of funds. Provide a separate energy conservation budget detailing these upgrades, such as green roof, geothermal system, and solar items.	Preliminary	Final
Identification of the development team and its capacity to complete and manage the project.	X	
A strategy to minimize displacement of residents, if applicable.	X	
List of lenders, equity partners and other funder's financial terms. Provide copy of equity bids.	Letters of Interest	Final Commitments
Economic Disclosure Statement(s) and Affidavit(s).	Preliminary	Final
Social service plan, if applicable.	Preliminary	Final
Complete disclosure of the entity that will own the project, including delineation of all controlling ownership interests. Any Tax Credit reservation will be null and void if there is a subsequent change in the principals of the intended ownership entity described in the application, if such change is not approved by the Department.		X
Final unit mix, rents and set-aside of low-income units.		X
Project cost information including construction budget.	X	Final
Complete architectural plans and specifications.		X
Final construction budget with construction bid documents.		X
An operating budget for the 1st stabilized year of operation and a thirty (30) year operating pro forma.	X	Update
Last 2 years of audited financial statements and interim current year financial statements of the Owner, if applicable, or such other entity related to the Owner, as requested by the Department.	X	Update
Any other documentation required by the Department.	Preliminary	Final

C. Owner Responsibility

1. It is imperative that the Owner submit identical budgetary information on applications to all funding sources including lenders, syndicators and the Department.

2. The Owner must advise all funding sources, including the Department, in a timely fashion as to cost or budget changes. Delay in the Department's receipt of information may cause delay or denial of a Tax Credit reservation.

3. An application for Tax Credits is not a guarantee of receiving Tax Credits. Owners should not attempt to syndicate Tax Credits without Tax Credit reservation and subsequent allocation.

D. Minimum Low-Income Set Aside Requirement

In order to be a qualified low-income housing project under Section 42(g), an Owner must elect one of two minimum set-aside formulas:

1. At least twenty percent (20%) of the project units must be both rent-restricted and occupied by tenants with a total annual household income of not more than fifty percent (50%) of the area median gross income adjusted for family size, or,

2. At least forty percent (40%) of the project units must be both rent-restricted and occupied by tenants with a total annual household income of not more than sixty percent (60%) of the area median gross income adjusted for family size.

   A minimum low-income election, once made, shall be irrevocable. An Owner may elect to address even lower income populations, or to set aside a greater percentage of units, or both. Developments serving the lowest income tenants will be given preference for Tax Credits.

E. Selection Criteria and Preferences for the Stage One Application Process

The Department has developed the following selection criteria and preferences for use in determining priority among the projects considered in connection with the Stage One Multifamily Submissions. Each application will be reviewed based on the selection criteria and preferences listed below.

1. Section 42(m) Mandatory Housing Preferences

In accordance with Section 42(m), projects containing one or more of the following criteria shall be given preference for selection for Tax Credits:

a) serve the lowest income tenants (very-low-income households whose incomes are at or below 30% of area median gross income adjusted for family size);

b) are obligated to serve qualified tenants for the longest periods beyond the minimum thirty (30) year requirement; and

c) are located in a qualified census tract the development of which contributes to a concerted community revitalization plan.

2. Section 42(m) Mandatory Selection Criteria

In selecting projects to receive allocations of Tax Credits, in accordance with Section 42(m), the Department shall consider the following criteria:

a) project location

b) housing needs characteristics;

c) project characteristics, including whether the project includes the use of existing housing as part of a community revitalization plan;

d) sponsor characteristics;

e) tenant populations with special housing needs;

f) public housing waiting lists;

g) households with children;

h) projects intended for eventual tenant ownership;

i) the energy efficiency of the project; and

j) the historic nature of the project.

3. Other Selection Criteria

a) Cooperation with the Chicago Housing Authority (the "*CHA*")

A project that includes participation with the CHA to provide housing for current CHA residents shall be rated more favorably.

b) Cooperation with the CHA or other organizations that assist in placing individuals on public housing waiting list, will be given a preference in consideration.

c) Preservation of non-public, at-risk federally assisted housing will receive a preference in consideration.

d) Projects that produce replacement public housing units within mixed-income developments.

e) Creative use of combination of existing vacant residential building types into low-income affordable rental housing. .

f) Development Team Experience: The development team must show its capacity for undertaking a project and have demonstrated development experience. Property management capacity and experience must also be demonstrated.

g) Owners who are affiliated with previous projects developed with Department assistance that have been or are out of compliance in a material respect, as determined in the sole discretion of the Department, with the City's MBE/WBE and local hiring preference ordinances, Davis-Bacon Act, Section 3 of the Housing and Urban Development Act of 1968 or with the Program or with a Department loan agreement, may be deemed ineligible for further consideration.

h) Preference will be given to projects that produce energy efficient and environmentally friendly housing that aggressively and creatively conserves energy and financial resources. Projects which utilize materials and amenities that exceed the City's "green building" standards and produce a durable, healthy and comfortable environment, while minimizing operating costs over the life of the structure will also be given preference.

i) Minimization of Department Resources - Because of the great demand for Department resources, projects requesting limited allocations of Tax Credits will receive greater consideration.

j) As part of its selection criteria, the Department shall consider whether projects are intended for eventual tenant ownership.

k) Projects that are located along established public transit lines.

l) Demonstrated financial viability of the project.

m) Demonstrated interest of other financing partners.

n) The anticipated investment rate for Tax Credits to raise equity. Projects with higher net syndication proceeds available for project costs per Tax Credit dollar requested will be rated more favorably. The Department reserves the right to both require and review multiple syndication proposals and other financial proposals.

o) The ability to leverage other resources, including historic tax credits, where applicable.

p) Low density housing for families.

q) Minimal displacement of current tenants.

r) An exterior that is compatible with surrounding structures and is an architectural enhancement to the community and green space on-site appropriate for the proposed tenancy.

s) Accommodation for off-street parking to meet the needs of residents.

t) Development which is geographically strategic by targeting resources to complement other affordable housing, located in a neighborhood in need of redevelopment, or enhances other community redevelopment efforts by the Department or the City.

u) Strategically develop new housing in close proximity to open green space and other public amenities.

F. Tax Credit Reservation Criteria

The following criteria will be evaluated upon the completion by the Owner of the Stage Two Multifamily Submissions:

1. Economic Feasibility

a) Continued demonstrated financial feasibility of the project.

b) Final construction and projected operating costs are reasonable when compared to similar projects.

c) Reasonable acquisition and intermediary costs.

d) Market study that demonstrates the need for the proposed project and supports the rents as proposed.

2. Readiness to Proceed

a) The terms and conditions of the commitment(s) should be clearly identified and required application/commitment fees should have been paid. The financing commitment(s) should be subject only to those conditions which are under control of the Owner to meet.

b) Owners must reasonably demonstrate the ability to commence development including a reasonable likelihood to obtain funding necessary, site control and governmental approvals in a timely manner.

At the time of the Stage Two Multifamily Submissions, if a project is not anticipated to be placed-in-service in the year of the Tax Credit reservation, an Owner will be required to submit specific information on how and when the 10% expenditure requirement will be met within the applicable time period permitted for the project. This includes line items that will be expended and sources of funds to pay the expenditures. Refer to Section H.2. "Carryover Allocations" below for more information.

G. Determination of Credit Amount

1. Timing of Determination

The amount of Tax Credits reserved for a particular project will be limited to the amount

the Department determines to be necessary to make the project financially feasible as a qualified low-income housing project. The financial determination and certifications are required to be made under the Program in connection with a Tax Credit project (i) when an Application is submitted (ii) at the time an allocation is made, and (iii) as of the date that building(s) in a project is placed in service (iv) before the issuance of the IRS Form 8609(s) by the Department. The Department may determine not to award the full amount of Tax Credits for which a project is eligible. Also, the Department reserves the right to set per-project Tax Credit award limits.

2. Tax Credit Increase Requests

The Department may consider an increase of a project's award of Tax Credits anytime after a Reservation of Tax Credits has been given to a project. Requests for Tax Credit increases may be made only to ensure that a project is financially feasible as determined solely by the Department. The Department may, in its sole discretion, grant a request for an increase in Tax Credits, subject to the submission of the following documents: narrative description of reasons for the request for additional Tax Credits, the revised project budget, a cost certification from a certified public accountant ("CPA") which states that the CPA has reviewed the revised project budget that provides the amounts of the revised total eligible basis and total project costs, and both the initial and most current contractor and owner sworn statements. The Department may request additional items if it is deemed necessary to make the determination of whether to grant the increase in Tax Credits. If a project is approved for more credits, the Department may issue an additional Reservation Agreement and charge the standard 5% fee on the additional credits.

3. 30% DDA Boost Selection Standards

As a result of the amendments made to the Program as a result of the passage of the 2008 Act, the Department may award a Credit Ceiling project a 30% basis boost if the Department determines that a project, in order to be financially feasible, needs the increase in Tax Credits based on the following standards. Any project which is designed by the Department as requiring such an increase shall be treated as being located in a difficult development area (*"DDA"*). The increase in the amount of Tax Credits will be the minimum amount of Tax Credits required to achieve financial feasibility, so may result in an amount less than the 30% increased allowed by the 2008 Act. Projects generating Tax Credits from tax-exempt bond financing and projects located in qualified census tracts are ineligible for the DDA boost.

a) High Costs – Projects that would be financially infeasible because of unusually high development costs, such as: land acquisition costs, site preparation, environmental clean-up, and/or infrastructure improvements.

b) Very-Low-Income Populations – Projects that need the boost to be financially feasible in order to target rents to very-low-income populations in order to off-set the cost of developments.

c) "Green Building" Amenities – Projects that need the boost to afford "green building" amenities that exceed the Department's basic program requirements in connection with environmental concerns.

d) In Lieu of Other Financing – Projects that the Department determines it is in the City's best interest to apply the boost to in order to allocate additional Tax Credits in lieu of other financing sources.

H. Issuance of Tax Credit Reservations and Carryover Allocations

1. Approval of Tax Credit Reservation

a) Following the final underwriting of each project, the Department staff will make a recommendation to the Department's internal loan committee (the "*Internal Loan Committee*"). Upon favorable action by the Internal Loan Committee, a conditional Tax Credit reservation agreement, conditioned on continued compliance with applicable requirements, will be sent to the Owner. The Department may reserve Tax Credits for a project from either its current calendar year's Credit Ceiling or from a future year's Credit Ceiling at its discretion. The conditional Tax Credit reservation agreement shall be deemed to be a legally binding commitment to allocate Tax Credits. The conditional Tax Credit reservation agreement must be signed and returned with the required fee by the deadline specified in the agreement or upon closing of the transaction.

b) As provided for in the 2008 Act, in the case of new construction and substantially rehabilitated buildings that are not federally subsidized (those which are not financed with tax-exempt bonds), which are placed-in-service after July 30, 2008 and before December 31, 2013, the applicable percentage (the "*Tax Credit Rate*") shall not be less than nine percent (9%). With respect to projects that qualify for acquisition credits, the Owner may elect the Tax Credit Rate in effect during either (i) the month in which the Reservation Agreement is issued by the Department or (ii) the month during which the building is placed-in-service. After the December 31, 2013 sunset date, unless extended by law, new construction and substantially rehabilitated, non-federally subsidized buildings, shall elect the Tax Credit Rate in the same manner as described above for acquisition credits.

c) Tax Credits will not be reserved, or if reserved, will not be allocated to Owners who have unsatisfactory prior performance record developing multi-family affordable housing with the Department, other City agencies or departments, the Cook County Collector's Office, the State of Illinois (the "State") or federal agencies. However, if Owners have documentation satisfactory to the Department showing that they made the effort necessary to rectify their performance record, and providing that they are simply waiting for a determination of compliance, such Owners may be eligible to receive a reservation and/or allocation of Tax Credits. In such circumstances, if a final determination of non-compliance is issued to an Owner prior to Tax Credits being reserved or allocated to such Owner, such Owner will not be eligible to receive a reservation or allocation of Tax Credits until such Owner shall have rectified such non-compliance to the satisfaction of the Department.

d) Tax Credits will not be reserved, or if reserved, may not be allocated to Owners who are associated with the ownership and/or management of properties that exhibit unresolved financial and/or management problems or are out of compliance, in a material respect, with Section 42 of the Code.

2. Carryover Allocations

a) If a project which received a Tax Credit reservation during a given calendar year will not be placed-in-service in that year, the Department will consider an Owner's request to make a carryover allocation of the reserved Tax Credits provided that the Owner submits a request for such carryover allocation in the time period prescribed by the Department. If the Department grants a request for a carryover allocation, the Department will allocate Tax Credits to the project by executing a carryover allocation agreement (the "*Carryover Allocation Agreement*"), provided that the project meets specific requirements. However, the Department is under no obligation to grant a request for a carryover allocation and reserves the right to deny such a request. The carryover allocation requirements include, but are not limited to, the following:

i) the expenditure by the owner of more than ten percent (10%) of the reasonably expected project basis by no later than 12 months after the carryover allocation is made.

ii) placement of the project in service by the end of the carryover period (December 31st of the second year after the execution of the Carryover Allocation Agreement).

b) The owner must provide verification that the owner has incurred eligible expenses totaling more than 10% of the reasonably expected basis. This verification must be made by obtaining a certification as to the expenditures from the Owner's attorney or accountant.

3. Status Reporting

All Owners receiving Tax Credits must forward, in a timely fashion, documents and other information requested by the Department. The receipt of all information is a condition to the final allocation of the Tax Credits and the issuance of IRS Form(s) 8609.

4. Revocation of Tax Credit Reservations or Cancellation of Carryover Allocation Agreements

Any project which does not show significant progress towards completion of the project to the Department's satisfaction, or any project which is out of compliance with federal, State or local laws or Department reporting requirements or ceases to qualify for the not-for-profit set-aside, if applicable, or fails to continue to meet Tax Credit criteria, may forfeit its Tax Credit reservation. Failure to comply with carryover allocation requirements may result in the allocation being deemed void and a non-compliance notice via the IRS Form 8823, "Low-Income Housing Credit Agencies, Report of Non-Compliance," ("IRS Form 8823") will be sent by the Department to the IRS.

IV. TAX CREDIT ALLOCATION

The Department will make a Tax Credit allocation to a project as of the date that the Carryover Allocation Agreement is executed by the Owner and the Department or at the time a project is placed-in-service via IRS Form(s) 8609. Regardless of when the Tax Credits are allocated, the

Owner must provide written notification to the Department upon the project being placed-in-service.

After the project has been placed-in-service and the Owner provides the Department with requested documentation, the Department may issue IRS Form(s) 8609. Prior to issuance of this form, the Owner shall be required to provide certain documentation (as may be supplemented or changed by the Department), including, but not limited to:

1. CPA Cost Certification (including any and all attachments)
2. Owner Certification
3. Managing General Partner & Equity Partner Contact Information
4. Architect's Certificate of Substantial Completion
5. Certificate of Occupancy
6. Recorded Regulatory Agreement
7. Evidence of Occupancy (Rent Roll)
8. Executed Carryover Allocation Agreement or Tax-Exempt Bond Agreement
9. Executed Reservation Agreement (if applicable)
10. Executed Election Form (if applicable).

As required under Section 42(h)(6), each Owner must enter into an extended use agreement (the "*Regulatory Agreement*") with the City requiring that the project will comply with the requirements of Section 42, including but not limited to, the income and occupancy restrictions. The Regulatory Agreement must be recorded in the Office of the Cook County Recorder of Deeds as a restrictive covenant on the real estate on which the Project is located.

Within 30 days after the Owner files a completed IRS Form 8609 with the IRS, the Owner is required to submit the form to the Department's Compliance Monitoring division.

V. TAX CREDITS OBTAINED WITH TAX-EXEMPT BOND FINANCING

Pursuant to Section 42(h)(4), projects to be financed with tax-exempt bond financing are not required to receive a Tax Credit reservation from the City's Credit Ceiling nor do they enter into Carryover Allocation Agreements. An Owner must submit an application and request a determination from the Department that such project satisfies the requirements for an allocation of Tax Credits pursuant to Section 42(m)(1)(D). The following requirements will apply:

1. Prior to the issuance of the bonds, the Department must review the application to determine:

   a) that the project satisfies the requirements of this Plan,

   b) that the project satisfies the Department's underwriting standards including project cost and fee standards, and

   c) that the amount of credits does not exceed that which is necessary for the financial feasibility of the project and its viability as a qualified low-income housing project.

2. An Owner of a tax-exempt bond project will be required to execute an agreement with the City in connection with the allocation of the Tax Credits generated by the tax-exempt financing and a Regulatory Agreement.

3. An Owner of a tax-exempt bond project may elect the Tax Credit Rate in effect during either (i) the month in which the tax-exempt bonds were issued or (ii) the month in which such project is placed-in-service.

VI. COMPLIANCE MONITORING REQUIREMENTS

All projects receiving Tax Credits must be monitored for compliance with Section 42 of the Code. Under Section 42 regulations, the Department may retain an agent or private contractor to perform compliance monitoring. In addition, the Department may delegate all or some of its compliance monitoring responsibilities to another Tax Credit allocating agency within the State. Upon written notification by the Owner that a project has been placed-in-service, active monitoring for compliance with Section 42 will commence. The Owners are advised that compliance with the general public use requirement for Tax Credit projects requires compliance with the Fair Housing Act. An Owner's failure to comply with the Fair Housing Act will constitute non-compliance with the general public use requirement, and the Department will report such non-compliance via an IRS Form 8823. Section 42 regulations promulgated by the IRS require the Department to undertake four levels of monitoring:

1. Record-Keeping/Record Retention;
2. Certification;
3. Inspection; and
4. Notification.

Failure by the Owner to provide the necessary information, documents and/or access to the project for inspection can and will be construed as non-compliance. Any acts of non-compliance must be reported to the IRS via an IRS Form 8823.

A. Record-Keeping/Record Retention

The monitoring provisions require that the following information be collected and maintained on an annual basis, for each year in each building during a project's compliance period by the Owner of a Tax Credit project. This information must be maintained for at least six (6) years after the due date, with extensions, for filing the federal income tax return for that year. The first year's records must be retained for at least six (6) years after the due date, with extensions, for filing the federal income tax return for the last year of the full compliance period. The total period of time is twenty-one (21) years for Tax Credit years prior to 1990 and at least thirty-six (36) years for Tax Credits issued after 1990, with a Regulatory Agreement. Each project's Regulatory Agreement will state the total number of years required to keep the documentation for the Tax Credit project.

The Owner is required to keep records for each building in the project documenting the following:

1. Tenant files which contain basic documents such as rental applications, annual tenant income certifications, income verifications, utility allowances, and signed leases and

addenda for qualified low-income units.

2. Documentation supporting each income certification submitted by a tenant in a qualified low income unit. For example, a copy of the tenant's federal income tax return, form W-2 or verification of income from third parties such as employers or State agencies paying unemployment compensation or assistance, if a tenant is receiving housing assistance payments under Section 8, the public housing authority can provide a statement to the Owner, declaring that the tenant's income does not exceed the application income limit under Section 42(g).

3. Monthly unit listings (rent rolls) which contain the following information: Unit number, number of bedrooms, tenant name, floor space of unit (square feet), move in date, move-out date, number of household members, gross rent including any utility allowances, such as heat, electric and cooking gas, tenant rent portion, subsidized portion, and unit status (LIHTC or unrestricted unit).

4. The percentage of residential rental units in the building that is qualified as low- income units under the provisions of Section 42.

5. For projects placed-in-service prior to 1990, the number of occupants in each qualified low-income unit if the rent is determined by the number of occupants in each unit under Section 42(g) (2).

6. For mixed-income projects, the qualified low-income unit vacancies in the building and information that shows when, whom, the next available market or qualified low-income units were rented.

7. All tenant selection documents, which are all to be available to the City or its representatives for periodic inspection. These include, but are not limited to, income verification, employment verification, credit reports, and low-income computation forms.

8. The eligible basis and qualified basis of each tax credit building for the first year of the credit period.

9. The character and use of any non-residential space, such as tenant facilities, that is included in the eligible basis.

10. Tenant facilities included in the eligible basis which are available to all tenants.

11. Documents on any legal or administrative action initiated by either lower-income families, City department or private corporations, such as building code violations, violations against the Fair Housing Code, foreclosures, etc.

12. The Department completes IRS Form 8609(s). The project owner should keep a copy of the IRS Form 8609(s) in case of an IRS audit.

B. <u>Certification Process</u>

All Owners of qualified low-income projects receiving an allocation of Tax Credits will receive the following documents from the Department to assist them in the monitoring

process: record-keeping requirements, annual owner's certification, and Tenant Profile Form and Tenant Certification Form.

1. Record-Keeping Requirements

   The Department's record-keeping requirement package provides, in a concise form, the specific record-keeping information to be maintained by the Owner. It also suggests a format for the Owner to follow in order to comply with the monitoring regulations.

2. Annual Owner's Certification

   All Owners receiving an allocation of Tax Credits must submit the "Annual Owner's Certification" document by October 1st of each year, for the term of the compliance period, verifying that the project conforms with the low-income provisions, as defined in Section 42. A copy of the most recent audited financial statements and copies of any City building inspection report are required with each annual certification. The last certification must be submitted after the end of the compliance period. Failure to provide this document will constitute an act of non-compliance.

3. Tenant Profile Form and Tenant Certification Form

   The Owner is required to provide to each tenant who occupies a qualified low-income unit a Tenant Profile Form and Tenant Certification Form to complete and sign. It is the responsibility of the Owner to provide these forms to each tenant who occupies a qualified low-income unit, at the time of occupancy and annually, upon recertification, if required, thereafter. In addition, the forms are required for any new tenant replacing a previous tenant in a qualified low-income unit. These forms must be completed, signed by the tenant and the Tenant Certification Form must be notarized and placed in the Owner's file. The Owner is responsible for reviewing all forms for completeness and correctness. Failure to provide this document will constitute an act of non-compliance.

C. Inspection

The Department will inspect all buildings in a minimum of 1/3 (33%) of the qualified low-income housing projects currently subject to monitoring each year. The inspection will include an examination of all documentation retained by the Owner as required and identified above for at least twenty percent (20%) of the qualified low-income units in the projects. The process also requires a City Building Code or HUD uniform physical condition standards (*"REAC"* - Real Estate Assessment Center) inspection by the City of all common areas and a minimum of 20% of the units for the selected projects will also be conducted. The selection process will be random, based on all projects currently subject to monitoring.

D. Notification

The Department will provide written notification by regular mail to the Owner:

1. fourteen (14) days prior to date of impending inspection;

2. upon failure of the Owner to submit the Annual Owner's Certification, supporting

documentation, rent records, or other information retained by the Owner for qualified low-income units under the Program;

3. upon failure by the Owner to permit the City to inspect the project; or

4. upon discovery by inspection or review that the project is not in compliance with the provisions of Section 42.

An Owner will be given an opportunity to cure an occurrence of non-compliance. The correction period will not exceed ninety (90) days from the date that the written notification was sent by the Department. The Department is required to file IRS Form 8823 with the IRS no later than forty-five (45) days after the end of the correction period. This filing is required regardless of whether the non-compliance was satisfactorily cured. This form must explain the nature of the non-compliance and indicate whether the Owner has corrected the non-compliance.

E. Liability

Compliance with the requirements of the Program is the responsibility of the Owner of the project allocated Tax Credits. The Department's obligation to monitor for compliance with the requirements of Section 42 does not make the Department liable for an Owner's non-compliance.

VII. OTHER CONDITIONS

A. The review of documents submitted to the Department is only for the purpose of determining eligibility for Tax Credits. The allocation of any Tax Credits does not constitute a determination or representation by the Department that the particular project complies with applicable requirements of the Code and the treasury regulations there under, or with any other laws or regulations governing Tax Credits.

B. The Department reserves the right to reject applications and disqualify projects based on non-compliance with any federal law, State law, local law or the submission of false or misleading information.

C. No agent or employee of the City will be personally liable concerning any matters in relation to the Tax Credit reservation, Tax Credits allocation or for monitoring for compliance with the Program.

D. If any provisions set forth herein pursuant to the 2008 Act sunset, such provisions shall be deemed as repealed from this Plan and the remainder of this Plan shall remain in full force and effect.

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This Low-Income Housing Tax Credit Qualified Allocation Plan will be in full force and effect upon signature of the Chief Executive Officer of the City of Chicago.

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The above-referenced Low-Income Housing Tax Credit Qualified Allocation Plan has been approved and executed as of this [19th] day of April, 2011.

By: _____
Richard M. Daley
Mayor

By: _____
Amy Degnan Gempeler
1st Deputy Commissioner
Department of Housing and Economic Development