LONG RUN DEVELOPMENT

To: Tara Hall

From: Ethan Sleeman

Re: 2027 QAP Comments

Thank you to Tara and the North Carolina Housing Finance Agency team for the opportunity to provide comments and recommendations for the 2027 QAP. I appreciate the effort and attention that goes into developing a fair and effective QAP, and thank you for your hard work. I am making the following comments and suggestions for changes in the 2027 QAP.

1. (*Carried over from last year's comments*): I think that the NCHFA should return to allowing developers to put 2 bonus points on a single project (Section IV F 2). If the fundamental structure of the QAP remains the same for 2027, with all the same basic scoring criteria, this change would allow a developer to offset the outsize impact of the Olmstead point on the competitive structure.

   The reality of the current scoring structure is that those DHS priority counties are guaranteed to be more competitive than anywhere else in the state. With all projects scoring a perfect score and receiving a bonus point, then any Olmstead projects have a 1-point advantage over any other project. Giving a non-Olmstead project 2 bonus points would let them compete, and if a developer really loved their Olmstead project and wanted to give it 2, they'd still be able to retain an advantage.

2. With the current QAP encouraging developers to pursue larger developments through the tiebreakers, I would advocate that the per-project award limit for LIHTC (Section II E 2) should be lifted to at least 1.6-1.7 M.
   a. The use of size as a primary tiebreaker within counties puts pressure on projects to push their projects as large as possible for competitive benefits. This is laudable, as larger projects are more efficient to operate and can help provide greater volume of much-needed affordable housing. However, with ever-increasing construction costs mean that many projects will hit a credit ceiling at 50-65 units, making the additional units above that very challenging to finance. This is particularly challenging in lower-income counties where the rents don't allow for taking on sufficient permanent debt to cover the additional cost. Those same communities often are lacking in the types of capital resources that would

allow them to provide gap financing to the project. The result is that it creates a scenario where there is incentive to push projects larger, but it is increasingly difficult to finance them at that scale in lower-income communities.

b. This may mean fewer projects being funded. However, allowing projects to access greater amounts of tax credit equity would let those projects have much simpler capital stacks, close significantly faster, and substantially reduce exposure to interest rate and construction cost volatility. It might also allow for more efficient use of some of the state's gap-filler funding.
c. Scoring criteria that awarded points for total leveraging could help alleviate concerns about wild cost overrun and put the onus for figuring out the tradeoffs between project costs and credit volume onto developers.

3. I would encourage the NCHFA to consider increasing the per-principal credit limit to be equal to 2 fully-funded tax credit awards. This would be consistent with pre-2026 standards. The current structure creates a functional '1 full 9% per developer' scenario (one person has described this as the 'Kindergarten Cookie Rule' which I quite like). In my evaluation, this structure can actually work at the expense of smaller, local developers. Anecdotally, only being able to secure one fully-funded 9% LIHTC project in a cycle creates situations where developers will end up sitting on multiple 'good projects' for several rounds before it is that deal's 'turn'. This ultimately ends up privileging large-scale developers that can afford the carrying cost of maintaining site control on multiple viable properties for multiple credit cycles.

4. (*Carried over from last year's comments):* I would like to add an additional carve-out under Section IV B iii under incompatible uses, the 250 feet from rail rule, for sites that are adjacent or proximal to heavy rail but are within 1.5 miles of a heavy rail station with regular regional service. Light rail is currently excepted, presumably for commuting reasons, and in an effort to support TOD, recognizing the value of being near train commuting options should outweigh any negative eternality of rail service. After all, communities statewide have regular train service through their towns, often right through neighborhoods, and that's a normal fact of life. Let's not limit great locations, especially near metro downtowns, with TOD potential due to this rule.

5. (*Carried over from last year's comments):* I believe that NCHFA should incorporate a one-two project innovation set-aside that is location agnostic, and is focused on projects that have a compelling project narrative and involve things like creative adaptive reuse, mixed-use efforts, non-conventional construction techniques, etc.

These projects would be required to meet threshold criteria but would be excepted from scoring criteria, would not have a construction cost minimum, and would be discretionary. Innovation in the program is essential, but the structure of NCHFA's review and process is such that, while tremendous at getting projects funded and closed, is not lending itself to innovation. This could facilitate creativity and enable 'proof of concept' projects that can be more widely adopted as their feasibility is demonstrated.

6. Tiebreaker 3 (Section IV F 7 c) should be revised to "The project with the lowest average income targeting as of full application submission". This will predicate the tiebreaker decision on the most realistic targeting that has incorporated market study adjustments, cost challenges, etc. I've advocated for this in past years, because the current 'logical strategy' is to set your targeting for the preliminary round exactly 5% below what you actually intend to do, and then adjust it up in the market study. This does still have the effect of having developers establish their lowest feasible targeting, but this just strikes me as less efficient than evaluating the targeting at the final stage, post market study adjustments etc. when it is set back up to what developers intended to deliver in the first place.

7. I would encourage the NCHFA to consider increasing the developer fee calculation, and potentially exploring a percentage-based calculation. NCHFA's developer fee calculation lags behind many of our neighbor states on projects of the equivalent scale and size. The benefit here is not simply to help developers make more money. NCHFA pushed the deferred fee threshold to 50% in the 2026 cycle, reflecting an understanding that in the current tax credit development landscape, deferring a substantial portion of developer fee is a de rigueur financing approach for even the most well-structured projects.

   The advantage of increasing the developer fee, then, would be to allow developers to plug more fee into the capital stack while still staying below the 50% threshold and still collecting a sufficient paid cash fee to continue operating effectively. Fortunately, tax credit investors and the IRS provide a structural limit on developers' use of deferred fee, as the fee must be paid back in the compliance period in order to remain in basis, so NCHFA doesn't necessarily need to police this for abuse beyond confirming that cashflow allows payback of the deferred amount. NCHFA also sets hard cost caps which, while occasionally frustrating as a developer, do have the benefit in this case of keeping the potential to pad ones cost excessively to boost developer fee to a minimum.

8. I would encourage NCHFA to request a Construction Draw Schedule(and provide a standard format/guidelines) at full application. In the past 2 cycles, on every project that I have been involved with, a draw schedule has been requested during the review process. If that is going to be an evaluated item on all projects going forwards, I think it may as well be a required document with a standardized format, in order to make both review simpler and to give developers confidence in how they should be preparing and presenting this material.

Thank you for the opportunity to submit comments and for your consideration of these items.

Sincerely,

Ethan J Sleeman

Owner, Long Run Development