HALCON
COMPANIES LLC

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August 22, 2014

NCHFA
ATTN: Rental Investment Group
3508 Bush Street
Raleigh, NC 27609

Dear Rental Investment Staff:

First, let me say thank you all for your hard work and the difficult decisions you must make every year regarding the QAP.

My comments for the 2015 QAP are:

1) Due to the STC being eliminated, please allow the Agency to provide a 130% discretionary basis boost for projects, if needed.

2) Please eliminate the deep targeting currently required for the 30% and 40% and maybe even 50% rents. This just will not be possible without the STC.

3) Please consider eliminating the targeted units. The Key Program rents will not work without the deep targeting. While I have always been an advocate with DHHS for these units and have supported DHHS' and NCHFA's efforts and I understand the objective, it will simply be impossible without the STC. This is another reason to continue to lobby for the STC or an increase in the Workforce Loan Program.

4) Please allow an increase in RPP request allowable per unit to make up for the STC being eliminated and an increase in RPP cap per developer. Please allow the RPP request for rehabs to be with repayment terms of 0-1% interest repayment for possibly 30 years because they weren't impacted by deeper targeting but yet it is still difficult to increase the rehab rents very much. I don't know how far the funds will go, but when I ran my current rehab proforma with 130% boost but without the STC, I needed 30,000/unit in RPP. If you don't go with the 130% basis boost for all projects, I also needed that amount for a 56-unit new construction property as well. With the 30% boost available for new construction, I still needed $800,000 in RPP in a high-income county, so requests should be able to be higher in low and moderate income counties.

5) Since there were not many rehabs funded this year, please allow the rehabs to be funded first in the 2015 QAP and allow for 15% of the total credits to go to rehabs in this cycle.

6) Please change the requirement for Developer Experience in Section IV.D.1.(d)(i) to read "was a Principal in <u>six</u> awards of 9% Tax Credits in NC from 2008 through 2014," I believe making this slight change will still accomplish what you are trying to achieve by giving an advantage to in-state developers or those highly experienced in NC , because 6 projects in a 7 year period is a great track record and should still be sufficient for the NCHFA to know about the developer's performance, knowledge about NC, and commitment to NC. 10 projects in a 7-year period is just an arbitrary number, which is pretty unrealistic given the current resources going forward and the 1 per County cap/competition.

7) Please increase the developer fee allowable to IRS Section 42 maximum allowable as is done in some other States, because with fewer resources, the developers may need to use developer fee as gap financing and still have enough available as a cushion to cover any unforeseen expenses/cost overruns and still allow the developments to be profitable. With the loss of the STC, fewer projects may be funded, and therefore, the developers need to make sure the 1 or 2 they get are profitable.

8) Due to having fewer resources available and probably funding fewer developments, please allow developers to keep the equity pricing they receive after award as long as they are not overfunded and there are valid expenses including-deferred developer fee, even if already projected in application, unforeseen construction cost increases by industry, unexpected site costs, increased soft costs, and increased site development costs driven by local, state or federal government requirements for any particular site, without reducing any of the State loans or resources. If the Agency will not allow this or will only allow a certain amount, please specify up front/ in the QAP the Agency's policy making it clear that the Agency will offset any Agency-provided financing if the equity received by the developer exceeds the equity utilized during the application process. In previous cycles, developers may have structured their developments (and LIHTC requests) knowing that the equity price they would actually receive would exceed the underwriting equity used by the Agency.

9) Please change the First Tiebreaker Criteria in IV.F.6.(a) to eliminate this race to the bottom. The project with the lowest credits per unit is not really funding the best development. While it eliminates subjectivity from the process, I fear that this will come back to have a negative impact on the Agency and the LIHTC program in general in a few years if this is not eliminated soon. Please consider eliminating this Tiebreaker based on lowest costs/credits all together and going back to giving varying site scores and design scores and/or change the Tiebreaker criteria. My only suggestion right now would be to change it to "The project which all around has the best location (stable or growth area with additional amenities other than those required); market (not within .5 miles of an existing LIHTC unless it's a Phase II or III with extra consideration if one wasn't funded there last year); quality design using quality materials; project that fits in or improves the surrounding neighborhood/area; and/or project that has creative resources, support, or will make an important impact."

10) Please allow the distance to amenities such as grocery stores, pharmacies/shopping to be expanded to 2 miles for the maximum points in order for developers to find land that is less expensive due to the STC not being available and there being limited resources available. Please also consider allowing the areas that are prohibited currently to not be within a ½ mile radius to be okay as long as they are not within a ¼ mile radius and the negative features that cannot be within 500 feet to not be within 250 feet to give more flexibility.

11) Please allow 2 projects to be funded per County when 1 is an adaptive historic reuse. New construction developments cannot compete against adaptive reuse's which are leveraged with historic tax credits, etc. Also, typically, most adaptive reuse's are elderly projects so there is probably also a need for a family development in the same market.

12) While I know you want to spread the developments around the State, I continue to request that you allow 2 per County when 1 is a family project and 1 is an elderly project. My reason for this is because 1- the market can usually support both and 2- it's efficient when a developer has a larger tract and wants to try for an elderly and family side by side in the same year and 3- developers spend a lot of money on these projects and rezonings, etc. just to get beaten out by another developer who is in the same County and who has lower costs due to maybe a less valuable site and/or more units. There is no way of knowing if there is another developer there. Also, the most important reason is that family projects can typically have more units, thereby usually beating out the smaller elderly projects when they are competing in a County-especially in a rural County that can't support an 80-unit elderly project. In the 2014 cycle, 70% of the 9% awards were to family projects.

13) If you do not do away with the current First Tiebreaker criteria and do not allow 130% boost for all projects, I believe that projects in DDA's and QCT's that could take up to 130% basis boost automatically should be able to receive an additional 5 points so that they are involved in the First Tiebreaker and the race to the bottom and therefore, in effect, not able to use the boost, which defeats the entire purpose of them being in DDA's/QCT's.

14) If developers cannot obtain a letter regarding estimated utility costs from a local government staff person because there is no final site plan that has been submitted and reviewed by the local government, please allow developers to include emails from town staff estimating costs or documents from the local government's website regarding these costs.

Thank you for your consideration and if you would like to discuss any items further, please call me at (919) 741-9328.

Respectfully,

Traci Dusenbury

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