THE HOUSING PARTNERSHIP

September 2, 2016

North Carolina Housing Finance Agency
Low Income Housing Tax Credit Program
Attn: Scott Farmer
3508 Bush Street
Raleigh, NC 27609

Subject: Comments on the 2017 North Carolina QAP Draft

Dear Scott,

Thank you for publishing the QAP draft early this year. Early preview helps with our site identification process and insures that we have enough time to develop a project that is in line with NCHFA's goals for the upcoming year. CMHP also appreciated the 1:1 sessions this spring and early draft ideas memo in June. We found all of those offerings beneficial.

For the 2017 draft published earlier this month, we respectfully submit the below comments/ideas. Many of our comments/suggestions from June were reflected in the QAP draft and we are very appreciative. We are overall in support of the changes for 2017 and would encourage future development of point categories so that it is harder to achieve a perfect project score.

Comments for New Provisions:

Rent Affordability Targeting (p16)
While we are in favor of increasing incentives for deeper targeting for all projects, including 35% extremely-low units will mandate RPP support and/or higher credits per unit, likely to approach or exceed $90K/unit in metro areas. Unless there are sufficient RPP funds to be allocated to all projects, this is a difficult provision to meet. CMHP recommends the targeting be directed at a combination of extremely low and very low units to help with financial feasibility. Our proposal would be a total of 35% of units serving low and extremely low residents (50% and below) with a minimum of 20% of units serving extremely low-units. For example, one project could submit a project showing 20% extremely low units and 15% very low units to achieve the 35% target. That sample project would not be eligible for NHTF or RPP, but could still compete. Another project could provide 25% extremely low and 10% very low and would be eligible for NHTF and RPP. This would allow projects to vary their structures and still compete.

Maximum Project Development Costs (p17)
We are in support of the increase and ask that NCHFA consider increasing by another $2,000/unit for METRO areas (total of $4,000/unit over 2016 QAP). The current cost of construction is extremely high in the metro areas. CMHP continues to advocate for lifting of the cap altogether.

Tiebreaker Criteria (p23)

We are in support of this change and are hopeful it will be a positive driver for development locations. However, one challenge that we foresee is that 2010 census data will not capture improvements in poverty levels for redevelopment areas. For example, homes in our Brightwalk development are now selling for $350,000-$400,000+, but homes didn't begin selling until 2012. As a result, the improvement in poverty level is not captured in the 2010 census data. The new site bonus points could offset this if awarded. However, without the bonus points, a site in a redevelopment area is not likely to compete well in a tiebreaker scenario.

Owner Investment (p30)

As written, the definition of Owner Investment is not clear. CMHP is not in support of this as written. Principals should have the ability to put in a permanent loan or grant to the project if it is ultimately supported by other soft funds or grant sources (e.g. NeighborWorks Capital allocation, recycled CHDO awards, etc).

Comments for Existing Provisions:

Non-Profit Limits (p7 - II, D ,2)

CMHP continues to feel that the limit on nonprofit organizations participation in the LIHTC allocation is contrary to the spirit of the LIHTC program. We advocate for removal of this provision.

Principal Limits (p7 - II, E,1)

In addition to the principal limit of $1.8MM, we propose a provision that limits the number of 9% awards to any one Principal to a maximum of three (3) total 9% awards, state-wide. This would not apply to bond-deals or any one specific set-aside.

Application Schedule for Bonds

Increasing the application periods from two to four would allow more flexibility to layer funding that may come from local sources on an unpredictable calendar basis and to get projects in the queue while interest rates support project feasibility.

Shopping Establishments List (p13 - IV, A, ii)

In addition to the existing list of shopping establishments, we propose that Home Depot and Lowes be listed as qualifying shopping establishments. Their product selection includes a wide variety of home goods that are comparable to the selections offered at dollar stores. Also, we propose that a town center or strip shopping center with a varied offering of smaller retail tenants that provides the same goods selections as those listed under qualifying establishments should qualify with NCHFA approval.

Loan Underwriting Standards / Management Fee (p 28 – VI, B, 1, a)

CMHP proposes that the management fee should be separately calculated as a % of Gross Revenues for Years 2-20, just as it is in year 1. The current language escalates management fee at 3.00% along with the remainder of expenses, which results in a higher calculated management fee for years 2-20 since revenues are only growing at 2%. Although it seems to be a small change, it affects how much hard debt the project can support by impacting DSCR in Year 20. 20 years of higher escalation rate accumulates.

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Developer Fees (Page 30 – VI, B, 7, a)
CMHP advocates for a higher developer fee per unit for developments that are in high opportunity, difficult development areas that may encounter high land costs or rezoning challenges due to location. This would entice developers to go after more challenging sites that otherwise score well but would be difficult to bring to fruition. Currently, the minimum LIHTC deal size is 24 units which generates a $312,000 developer fee ($13,000/unit). The amount of fee and the project location could be subject to pre-approval by NCHFA.

Thank you in advance for taking the time to review our suggestions. Please let us know if you would like to discuss our recommendations.

Sincerely,

Julie A. Porter
President
Charlotte-Mecklenburg Housing Partnership