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Option C - The Credit per Unit Points Should Remain the Same as 2017

One of the proposed 2018 QAP changes is decreasing the spread from average from 5% to 2.5%. I would suggest we leave it alone and add some refinements to the existing rule based on what we have all learned from the 2017 applications round. I will outline the logic and the suggested language below.

Suggested Language:

I would suggest the following change in the QAP:

> **"2. CREDITS PER UNIT AVERAGE (MAXIMUM 2 POINTS)**
> **The Agency will calculate the average federal tax credits per low-income unit requested on a Geographic Region basis among new construction full applications and award points based on the following:**
> **Within 5% of the average 2 points**
> **Within 10% of the average 1 point**
>
> **Any application submitted with an average credit per unit less than the below numbers shall receive -2 points:**
>
> **______ $10,000 for the East Region**
>
> **______ $10,000 for the Central Region**
>
> **______ $10,000 for the West Region**
>
> **______ $10,400 for the Metro Region**
>
> **The Average Per Credit calculation will not include Redevelopment Properties or other properties which are removed from the final application round due to threshold reasons."**

The logic is as follows:

Set a Minimum Credit Per Unit

If the reason for changing the credit per unit is to stop the "race to the bottom", there is a simple solution which is to have a minimum credit per unit. Now that we have the data from 2017, you could easily make the minimum $10,000 for the non-metro regions and few would argue with you. It has worked on the construction cost side, so it would also work on the credits per unit.

Leave the 5.0%

First off, 5% up and down from the average is only $500 above or below the average which is very tight given the diverse applications within a region. It is not perfect, but it is reasonable when you consider each region is made up of High, Moderate and Low income counties with dramatically different rents, incomes, tenant composition (family/senior) and NCHFA loan programs.

The puzzle with it being too tight on the spread is mathematically it is going to favor a certain type of development. That type could be senior verses family, high verses low income counties, three story walkups verses townhouse. You will not be able to predict the result, but the final results will show up in the final allocations since the ones that mathematically work the best will win.

With that in mind, I keep hearing comments from NCHFA staff asking why few developer propose townhouse product or other lower density apartment product. It is because the majority of applications are three story walkups in North Carolina, so in locations that naturally would favor low density product, developers are still proposing three story walkups since they have to be close to the average in order to win.

Two Story apartment buildings have 1/3 more roofs and foundations than three story walkups and it is tough to overcome that construction cost difference and still fit in the averages. If NCHFA wants diverse product like we used to build in this state, you should increase the spread on the average instead of tightening it.

Lastly, tightening the average pushes the credit allocations towards the bedroom communities of the metros since the other lower income counties in the same income bands (high, moderate, low) can't compete since their lower rents can't be made up without asking for more credits (loss points) or going with riskier debt or equity options which should not be NCHFA's intent.

Mega Millions

The proposed 2.5% spread from average credits per unit is only $250 up and down for the average which is way too tight. When you take the same property and run it through the application underwriting guidelines with the same scores and just change from RPP to Workforce Housing Loan program, the change in the credits per unit is over $500.

Changing to 2.5% will make the application process even more of a lottery and just as you see with the Mega Millions, people usually respond by buying more tickets. There are plenty of states which use the lottery system and the big developers in those states usually overwhelm the process by putting in huge amounts of apps to improve their odds. If the state tries to limit the number of applications per applicant, these same teams will just figure out how to spread their applications over more applicants. In the end the lottery systems have tended to favor the folks game the system and drives up the cost to apply which is not what we should promote in North Carolina.

Odd Ducks Change Averages

One unexpected result of the 2017 allocation round was that the applications with special case “Wildcard” allocations such as the Redevelopment Projects moved the average credits per unit when they are not trying to compete with an “Average Credits per Unit” application in the first place. The credits per unit for these properties should be removed from the average credits per unit calculations for the region since.