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August 31, 2017

North Carolina Housing Finance Agency
3508 Bush Street
Raleigh, NC 27609

Re: 2018 Draft QAP_v1

Dear NCHFA,

Thank you for the opportunity to provide comments for consideration in finalizing the 2018 QAP. Please find below our updated comments on the first draft:

1. Principal and Project Award Limits:

    a. We are fine with reducing the overall allocation limit to $1,600,000. However, the $900,000 per project limit will have a substantial impact on Metro County proposals. Most applications submitted in these Counties are larger than 80 units and require more than $10,000/unit to maintain feasibility, unless substantial soft money is awarded. We would like to request the reduced per principal allocation limit stay as proposed, but either (i) leave the per project request alone at $1,000,000 or (ii) have a separate Metro County allocation limit of $1,000,000 with all other Counties at $900,000. Otherwise, you might as well reduce the max project size in Metro Counties from 120 units to 90 units.

2. HERA Boost and Deeper Income Targeting:

    a. We believe the 10% HERA basis boost should be allowed without having to target lower than 50% AMI units. High and Moderate Income Counties should not be required to target 30% and 40% AMI units, respectively. Instead, the Agency could look to require more than 20% of units at 50% AMI in those so-designated Counties. Please consider replacing the 30% and 40% AMI requirements with higher percentages of units set-aside at 50%, or only make High Income Counties target 40% AMI units, with Moderate Income counties targeting a higher % of total units at 50% AMI (30%?). An example could be:

        i. High Income Counties: 15% HERA Boost in exchange for 20% of units at 40% AMI
        ii. Moderate Income Counties: 15% HERA Boost for 30% of units at 50% AMI
        iii. Low Income Counties: 15% HERA Boost for 20% of units at 50% of AMI
        iv. If requesting RPP, then 40% of units at 50% AMI or less.

    30% AMI units are extremely detrimental to a deal's overall financial feasibility. If the Agency is set on addressing 30% AMI units in the 9% application rounds, then limit them to deals submitted under the National Housing Trust Fund set-aside and/or those financed in part with RPP funds.

3. Maximum Project Development Costs:

    a. The Agency should remove the arbitrary Maximum Project Development Costs ($70,000/unit hard costs) and instead look to use HUD's 2017 Unit Total Development Cost Limits for North Carolina Region IV – Southeast. These provide more reasonable hard construction and/or total development cost limits based on actual unit mixes (Efficiency up to 6BR units).

4. Project Size Limits:

    a. Small Town projects should not be limited to 48 units, but instead 64 units. Some areas that qualify may have sufficient demand for more than 64 units. Smaller deals have a more difficult time supporting themselves financially over the long-term. More than likely this will push more applicants to stay out of Small Towns, which are getting left behind already for larger projects in other larger jurisdictions, in part because applicants are seeking higher developer fees. If you insist on staying with 48 units, then consider increasing the per unit cap on developer fees for small-town applications…maybe $17,000/unit or $800,000 total?

    b. As stated above, if the maximum per project allocation is going to be reduced to $900,000, then the Agency should go ahead and reduce the Metro County project size to 90 units from 120 units. However, we want to reiterate, at least for Metro Counties, the limit should be unchanged from $1,000,000.

5. Applicant Bonus Point:

    a. This is a great idea to implement and will create stratification within the application scores. However, we would like to see the total be 2 points to offset the point added in 2018 for the Credits Per Unit Average. This will allow an Applicant's preferred deal to still compete in case it falls within 5% of the Credit per Unit Average, but misses the 2.5% Average.

6. Operating Expense Minimums:

    a. We feel minimum Operating Expenses are still too low, at lease for non-Small Town applications which may not carry full-time on-site personnel. Or, the Agency should re-evaluate the inclusion of Property Management Fees in the minimum amount and adjust accordingly.

7. Design Scoring Categories:

    a. Consider increasing durability and quality of materials used in construction, providing options worth additional points, and prohibiting the use of vinyl siding entirely. The industry should be striving to build market-rate style housing (except for true luxury style aspects…stainless steel, marble, granite, etc) for working class families. These projects

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will be more durable over time, and will help sway the public appearance of what truly is "affordable housing".

8. Site Bonus Points:

   a. We would like to see the Agency utilize these points in 2018, but do so with set parameters that are known in advance to the industry. A framework for evaluating applications for these points could be created which further the priorities of the Agency for any given year. An example for 2018 could be as follows:

      i. Amenity Scoring (proximity to Primary Amenities):
         1. 3 pts for aggregate distance <1-mile (1.5-mile Small Town)
         2. 2 pts < 2-miles (3-miles Small Town)
         3. 1 pts < 2.5 miles (5-miles Small Town).
      ii. Lowest Poverty Census Tract:
         1. 3 pts for <5%
         2. 2 pts for <10%
         3. 1 pt for <15%.
      iii. If still tied after the above, winner is site in lowest poverty census tract or rank according to listed Secondary Amenities (aggregate distance of closest 3 amenities only).

Again, we appreciate this opportunity to provide our comments for consideration in finalizing the 2018 QAP. Should the Agency have any questions as it relates to our comments above, please do not hesitate to call or email me any time. We thank you for your work in providing the best affordable housing options in the State of North Carolina.

Sincerely,

Tab Bullard, VP of Development

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