CAHEC
Strengthening Communities

MEMORANDUM

TO: TARA HALL, NORTH CAROLINA HOUSING FINANCE AGENCY

FROM: JOE ERDELYI, MANAGER, RISK MANAGEMENT; CAHEC

SUBJECT: DRAFT 2024 QUALIFIED ALLOCATION PLAN

DATE: OCTOBER 13, 2023

Thank you for the opportunity to comment on the first draft of the North Carolina 2024 Qualified Allocation Plan. Community Affordable Housing Equity Corporation (CAHEC) is an established and prolific investor-member of many North Carolina LIHTC properties. We have the following comments:

1. Please consider bringing the QAP into alignment with the longstanding Affordable Housing Investors Council (AHIC) standards, specifically with regards to replacement reserves. **Reason:** AHIC has different replacement reserve requirements than the QAP. The AHIC underwriting standards differentiate between Senior and Family properties with regards to new construction operating budgets. "…AHIC recommends a minimum of $250 per year for projects with senior tenants and *$300 per unit per year for projects with family tenants, adjusted for inflation."* The 2024 QAP draft states a flat $250 for all new construction, regardless of tenancy. Variances from the AHIC standards within the QAP trigger extra investor scrutiny and collectively work against efficiently securing well-priced LIHTC investment. Additionally, the $250 standard in the QAP has been in effect since it was introduced to the QAP in 2001, and it is not in line with inflationary pressures over the past 23 years.

2. Please consider allowing the capitalization of a distinct 'sinking fund' reserve in coastal areas, for the express and restricted use of paying insurance deductibles or insurance renewal policy premiums 15% higher than year-over-year increases have been. **Reason:** This would preserve the intent of the Operating Reserve for other purposes. Coastal areas are increasingly seeing insurance premium increases as high as 200% at renewal time.

3. Please expand Section VII, Post Award General Requirements, to clarify that a property will receive NCHFA permission for withdrawal from the Operating Reserve or Replacement Reserve for payment of insurance deductibles in the event of a loss claim or multiple loss claims within the one-year policy period. **Reason:** just as payment of insurance premiums are a permitted operating expense (as insurance is essential to the continued safe functioning of the property), payments of insurance deductibles are extraordinary, non-recurring expenses triggered by a loss and an insurance claim at the LIHTC property. Restoring the property to full operation as quickly as possible should be a priority for all parties. Developers, particularly but not exclusively nonprofits, have limited cash liquidity and often maintain a pipeline of 'pre-development-in-progress'. Restoration of a damaged property to full operation using insurance proceeds should not slow that production of other LIHTC pipeline developments, should not prolong that restoration, and should not impose immediate (and sometimes severe) operational burdens on those developers.

4. Please expand Section VII, Post Award General Requirements, to clarify how and when a struggling LIHTC property with RPP financing can request and receive time-limited deferral of debt payments. **Reason:** In years past a select committee at NCHFA received proposals for relief. Today it is not clear if such a committee still exists, to whom a proposal for relief should be addressed, and the required contents of such a request. The QAP discusses the coupling of tax credits with RPP loans and clarity on this point would help distressed LIHTC properties and alleviate their need to seek new or additional resources.

5. Please consider increasing the tax credit award to $1,500,000 per project and increase the operating expense limit to $4,000 per unit per year. **Reason:** Inflation has affected all sectors of the US economy including developing and operating multifamily rentals. The effect is felt during the development phase when a capped LIHTC award coupled with an effective hard-debt cap (caused by high interest rates) severely stresses the available soft-debt sources. This hunt to fill these gaps triggers delays, value engineering, and credit exchanges. On the operations side every investment CAHEC evaluates undergoes an operating expense analysis and it is now nearly universal to see initially budgeted operating expenses are inadequate. In the pursuit of a credit award developers should not be incentivized to low-ball operating expenses in their applications.