

## Tara Hall

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**From:** Joseph Kass <jkass@nhe-inc.com>  
**Sent:** Monday, October 4, 2021 10:50 AM  
**To:** RentalHelp  
**Subject:** public comments for 2022 Draft QAP

Thank you for this opportunity to submit comments on the draft 2022 NC QAP.

1. **Credits Per Unit** – Our team is generally supportive of NCHFA’s efforts to incentivize developers to utilize the credit wisely. The LIHTC is a limited resource that needs to be allocated in manner that increases production of affordable housing units while striking a balance to ensure the financial feasibility of each development.

**We support the reinstatement of points related to the average Credits Per Unit.** With the 2<sup>nd</sup> tiebreaker being the lowest credit per unit calculation, too many developers might be incentivized to submit unrealistic underwriting to maximize their chances in the competition, the so called “race to the bottom”. We have found the past few years of the QAP point scoring (being close to the CPU average) to be an effective way to award developments that manage to control costs and seek the best financing.

However, under the past several years of QAP scoring for the average, a development that submitted a credit request that resulted in a very low credit per unit calculation was penalized for being “too low”; i.e. it was too far below the average to receive the maximum CPU points. Perhaps a good balance between the “race to the bottom” and a good faith effort at incentivizing applications to utilize the least amount of NCHFA credit resources to maintain development feasibility, would be to end the penalization for being “too low” with CPU. **The average CPU point language could be revised as follows:**

*The Agency will calculate the average federal tax credits per low-income unit requested on a geographic set-aside basis among new construction full applications and award points based on the following:*

- *Equal to or below the average = 2 points*
- *No More than ~~Within~~ 4% above ~~of~~ the average = 1 ~~2~~ points*
- *No More than ~~Within~~ 8% above ~~of~~ the average = 0 ~~1~~ point*

*Any Applicant or Principal attempting to manipulate the average, as determined by the Agency, will have any application(s) they are involved with removed from the competition.*

Or, alternative language for the NC QAP could be:

*The Agency will calculate the average federal tax credits per low-income unit requested on a geographic set-aside basis among new construction full applications and award points based on the following:*

- *Equal to or no more than 8% below the average = 2 points*
- *More than 8% below the average = 1 point*
- *No More than 4% above the average = 1 point*
- *More than 4% above the average = 0 points*

*Any Applicant or Principal attempting to manipulate the average, as determined by the Agency, will have any application(s) they are involved with removed from the competition.*

This 2<sup>nd</sup> option for the QAP average credits per unit points would create a wider range below the average for a development to receive the highest points and incentivize developers to stay below the average (with frugal credit requests), while also avoiding the tiebreaker for the absolute lowest credits per unit being the primary mechanism to decide tax credit awards.

2. **PDC Chart A negative points** - Our team is appreciative that the Line 5 Project Development Cost (PDC) per unit on page 19 has been raised from \$85,000 to \$89,000, however this is new number does not keep pace with the reality of construction pricing over the last 18 months. All materials, including insulation, roofing, windows, plumbing, and HVAC have experienced 12% to 60% increases. Labor is difficult to find, and therefore more expensive. All subcontractors have increased their prices. There have been large delays due to shortages of product and labor constraints. The LIHTC program has rigid completion timelines, which puts LIHTC developers at a disadvantage as compared to market rate developers when adjusting their construction schedules to wait for better pricing.

**We support raising the PDC cost limit to \$99,000 per unit for Chart A before punitive points are assessed.**

3. **Bonus Points** – We support the current 2022 QAP draft language which includes a maximum of 2 bonus points, and any application can only receive 1 bonus point. We have found the inclusion of bonus points in the QAP a couple of years ago has incentivized developers to focus on a couple of high quality applications that they really believe in, rather than several applications across each region. The current drafted language strikes the right balance since the maximum awards for any development team is 2 new construction awards.

Thank you,

**Joseph Kass**

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