THE HOUSING PARTNERSHIP

August 30, 2019

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

Subject: Comments on the 2020 North Carolina QAP Draft 1

Dear Chris,

Enclosed are comments and suggestions that we feel will help strengthen the QAP for 2020. Thank you for considering these in your final revisions to the first draft.

Comments for New Provisions:

Rent Guidelines and SF changes (p 16 – IV,2,d)

We are in support of the change to allow rents to be modified through the market study revision period. If the new annual rents are released within that time period (before the market study revision deadline), we would be in support of allowing adjustments to reflect the new annual limits. For the Square Footage proposal, we request that if this provision is maintained that it be further clarified as such: "from decreasing more than 10%" to only prohibit material changes. However, we would be in support of removing this requirement and only mandating that the projects meet the minimum square footage requirements set forth. If it is an underwriting concern, perhaps the Market Study analyst could comment on if there is an impact to supportable rents if developed at the minimum QAP square footage.

Tiebreaker Criteria (p23,8a)

We are not in favor of removing the 2019 first tiebreaker (lowest poverty rate). The presence of this feature as the first tiebreaker will continue to encourage developers to select sites in low poverty areas. Over time, this will increase the odds that developments are occurring in areas of high opportunity. We would also support a separate bonus point for developments in census tracts with either 1) less than a 5% poverty rate or 2) with documented gentrification (loss of affordability due to increase in market activity). Ultimately, if all applications were achieving one of these two items – developments would be encouraged to occur in the highest priority areas. This should not result in a negative impact in non-metro areas, but if the agency felt that it was only appropriate for metro regions, it could apply to only the metro set-aside.

Approval before Occupying Units (p32, VII, 1g)

CMHP proposes for this new addition to be removed. Occupancy should be subject to receipt of the Certificate of Occupancy. If there are specific concerns that resulted from a project, we would like to better understand why this provision was added so we can help recommend a different solution. The timing between CO and occupancy is critical for the delivery of tax credits to an investor (and operational revenue), and any delays could be material to meeting project delivery hurdles.

Continued on Next Page:

Other Potential New Provisions:

RPP Debt Sizing (p18, 2)
We recommend the debt sizing for RPP loans be based on the greater of 1.15 DSCR or $500/unit/year for deals 50 units and less. This functionality allows smaller deals to be able to utilize RPP and provide lower targeting, but maintain sufficient cash flow to manage operational risk.

Development Costs Chart B (p18, IV, C, 1, a)
Chart A & B should have a standard annual increase of at least 10-15%. A moderate 12.5% increase would bring the 2020 limits to $88,000 for Chart A, resulting in a $10,000 increase. If the same dollar increase is applied to Chart B, it results in a new limit of $99,000. Without these increases, projects are going to lose quality of design and development which can have negative effects to resident experience and the reputation of affordable housing. We feel an increase is needed for all areas, but in particular the METRO set-aside. If the agency did not feel this was appropriate state-wide, a new chart could be introduced as follows:

	Chart A	**Chart B**
Non-Metro	$78,000	$89,000
Metro	$88,000	$99,000

Chart B, bullet three should be modified as follows: "Development Challenges resulting from being within or adjacent to a central business district or transit oriented development". Additionally, we recommend a fifth bullet: "Congregate style conditioned corridor buildings with elevators and at least four stories".

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.

Rolling Bond Application Deadline (p10 – III, A)
We just wanted to reiterate our support of this provision. If the agency would consider expanding the rolling period, we would be in support. Even an adjustment to keeping the period open through October 31 would be helpful.

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 prior to pre-application. Also, we request that Compare Food Express be added as a qualifying grocer.

Maximum Project Development Costs (p17, II, C, 1)
The current cost of construction is extremely high in the metro areas and continues to rise. CMHP advocates for lifting of the cap for bond deals. This limitation is putting significant pressure on the quality of the buildings and the feasibility of deals in high opportunity areas requiring dense development styles. Additionally, the text as proposed does not clearly state a separate cap if you are using Chart B. If the cap cannot be removed, we request that there be a waiver process for projects proposed in high cost markets like Charlotte.

Targeting Program (p22, 5)
We propose that this paragraph be modified to be "10% of LIHTC units" instead of total units.

THE HOUSING PARTNERSHIP

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

<u>Calculated Allocation Fee</u>
We request that the allocation fee be based on **<u>requested tax credits x 10 (for the number of years in the credit period)</u>**, not on total qualifying basis. For example, a project with a qualifying basis of $10,000,000 requesting only $800,000 in annual allocation would pay $67,200 ($800,000 x 10 x 0.84%) instead of $84,000 ($10,000,000 x 0.84%). This helps ensure that the allocation requested matches the actual allocation received.

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,

Liz Ward
Vice President, Multi-Family Development
Charlotte-Mecklenburg Housing Partnership