



15 October 2021

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Submitted via email to rentalhelp@nchfa.com

RE: Comments on the First Draft of 2022 NCHFA QAP & Draft of Appendix B

Thank you for the continued support you have provided for the development of affordable housing throughout North Carolina and for the opportunity to comment on the 2022 Qualified Allocation Plan. DHIC would like to respectfully submit the following comments for your consideration:

Assistance for already awarded projects with Income Averaging

Since the IRS issued guidance on Income Averaging in late 2020 the majority of tax credit investors have elected to pass on any new transactions that have Income Averaging. Until acceptable guidance is issued by the IRS we will continue to see investors not accepting deals utilizing Income Averaging. In addition, if state allocation agencies approve changes from Income Averaging to 40% at 60% set-asides, investors are requiring that the LURA match the 40% at 60% set aside.

We encourage NCHFA to address the following in the 2022 QAP:

- 1) Eliminate the irrevocable Income Averaging election at time of the full application (Section IV(B)(3)(d)), and
- 2) Allow 2020 and 2021 awards to change their irrevocable election from Income Averaging to 40% at 60% AMI set-aside, with NCHFA underwriting approval, and obtain a LURA matching the 40% at 60% set-aside.

We believe these changes will help provide North Carolina awards an increased interest level from equity investors and thus ensure competitive equity offers for North Carolina's prior, and future, awards. Without the changes above or IRS action, there will be far less demand and interest for these awards. If 2) above is not feasible, please consider allowing changes to LURA language for this unique circumstance we are in.

Construction Cost Limits

Construction costs have risen substantially with constraints on materials and labors. The current cost limits are not achievable in today's market and material delays are lengthening construction timelines. There is a real discrepancy between construction costs in Metro regions compared to non-Metro. Additionally, some sites that would otherwise be outstanding locations for affordable housing require structured parking. Recommendations:

- Increase cost limits based on construction cost data or feedback from third party contractors
- Separate cost limits for Metro counties
- Additional cost limit for projects with structured parking
- Change cost limits from Cost per Unit to Cost per SF

There are also changes proposed in the Draft Appendix B which will be more expensive so please consider increasing project development cost limits more than the proposed \$4,000.

Water/Sewer Capacity

Some municipalities will not confirm capacity without a project already engaged in the site planning approval process and able to generate specific data about water/sewer usage. The municipalities are only willing to commit to the availability of water and sewer and not capacity. Recommendation:

- Change utility language to require the availability of water and sewer and not the capacity.

Overall Application Scoring

Every year, there are a number of projects that are decided based on tiebreakers. Tiebreakers should be avoided to the extent possible and awards should be decided by the merits of individual projects. Several neighboring states routinely have large scoring disparities between awarded projects based on criteria in the QAP. Recommendation:

- Provide more options to differentiate scoring. Possible criteria could include: project readiness, designation of priority areas (revitalization area, opportunity zones, redevelopment area, etc.), funding related commitments that reduce overall credit requests (e.g. land donation, fee waivers, local subsidy), deeper income targeting, points for projects in areas with increasing rent-burdened populations, energy standards, and the provision of professional resident services.

2020 Awards

Increases in construction pricing have led to large financing gaps on projects awarded in the 2020 round. In order to keep projects on track, additional funds are needed to help fill these gaps and make the projects whole without severely overleveraging them or asking for drastic rent increases. Recommendation:

- Forward allocate credits to fill the gap on 2020 projects.

And finally, penalties for returning credits for a new allocation should not prohibit applying for 4% deal in the following year.

Comments to Draft Appendix B

- All HVAC condensate drain lines may not drain on brick veneers or siding materials.
 - Please clarify, will this require condensate drains to be tied in and no longer be “daylighted”?
- Exterior Design and Materials
 - Requiring 30-year minimum warranty on all roofing now will result in significant price increase; *please take that into consideration in construction cost limits*
- Interior Design
 - 19 Vinyl/rubber base can only be installed on walls with metal framing or masonry/block walls – please consider allowing it in areas such as fitness rooms, mechanical closets, etc.
- Common and Site Amenity Provisions
 - Instead of requiring a Gazebo for senior projects, can you offer the option of a **Gazebo OR a screened porch?** Finding an appropriate space for a Gazebo is going to be difficult in some urban, in-fill sites and if the point of the requirement is to offer a covered amenity space that offers fresh air, a screened porch provides that.
- Sitework and Landscaping
 - Requiring all ID signs have brick or stone columns is limiting. We have installed some really attractive signs (free-standing and actually on a building in an urban location). Could change the wording to say that signs posts/columns cannot be made of wood or materials that need more maintenance.

Thank you and please reach out to us if you have any questions.