Tara Hall

From: Traci Dusenbury <traci@halconcompanies.com>
Sent: Friday, October 15, 2021 12:02 PM
To: RentalHelp; Tara Hall; Scott Farmer
Subject: 2022 First Draft QAP Comments

Scott and Tara:

Thank you as always for listening to our feedback and being willing to assist your development partners during these very difficult times we are all facing. Here are my comments about the First Draft of the 2022 QAP.

First of all, thank you for increasing the developer fee in **Section VI (B) (7).** This is VERY needed.

Section II G (Page 9) – The Draft QAP for 2022 opens up credit returns for 2019 and 2020 tax credit deals but reserves the ability to bring back the penalties at a later date. The penalizing of developers for a returned allocation is in some ways Double Jeopardy, as we face significant costs from the market as a result of a slowed development timeline due to the pandemic. Additionally, I would like for you to allow 2021 projects the ability to also refresh credits as it is widely known that supply chain issues are still taking place across the Country and impacting many industries including the construction industry. At this time, it's difficult for us to know the exact implications of this for our 2021 projects. I know you could alter this in the 2023 QAP versus the language you have reserved for 2023 in Section II, G.2, but it would be much better for us trying to get investors on board now to close these projects (with all of the uncertainty) if this language was clear in the current QAP. Please do clarify in the QAP that there will be no additional costs associated with this request and Developers will be able to participate in the next year's round(I know Investors will want to see this) and clarify that 2020 projects must do this prior to 12/31/2021.

Seeing the significant cost overruns many of the 2019, 2020 and 2021 projects will be facing (due to the pandemic and the 2021 projects without being able to use income averaging), can you possibly consider in addition refreshing the credits, **allowing a request for additional credits** in this QAP if there is no opportunity for federal/state gap funds, so that the feasibility of these projects is not jeopardized ? If additional credits were allowed to be requested, we could subtract the amount from the Principal's cap the following year. I would urge you to please consider this in case there is no possibility of ARP funds (Federal/State/WHLP funds) for 2019 and 2020 and 2021 projects. I am seeing projects with gaps between $500,000-$850,000 and we need truly need assistance with these projects since this was out of our control.

Section IV(B)(3)(d) pg. 18 Many projects were submitted in good faith in 2020 and 2021 thinking that the IRS Guidance was going to be satisfactorily clarified for projects using income averaging and it was not. Remove entirely-"The election of Income Averaging at full application submission is irrevocable." Please either remove this entirely or **change as follows: "For full applications submitted between 2018 and 2022, the election of Income Averaging may be modified to the 40/60 set-aside up until application for final cost certification**." Additionally, the LURA needs to match the 40%/60% Set-Aside, not Income Averaging. Leaving the Income Averaging LURA in place, would mean you would still need to meet the IRS Guidance. Developers requesting this modification after award must submit a letter of request for the change and include:

- A letter from their selected Investor affirming the reason for the request.
- Documentation from the Operating Agreement for any provisions for the income averaging election to be reinstated prior to 8609 if IRS/Treasury regulations are satisfactorily clarified.

Section VI B 4 C (Page 30) - Although it is understandable that the NCHFA wants projects underwritten very conservatively, the **4% escalator on replacement reserves** is well above the standard underwriting practices that most lenders/institutions are using that participate in these deals. As a result there are often mismatches in how the NCHFA underwrites the project's financials (esp. with regard to debt coverage in the early years) versus how the lender's underwrite. Having that escalator changed to reflect industry best practices at a slightly lower rate (while still conservative) could help project feasibility without materially impacting the project's financial strength. Reducing this escalator to 3% would also help the projects that are hurting in 2019-2021 to increase their permanent loans and fill some of their gaps.

Section IV(C). Thank you for increasing the construction costs per unit before negative points are assessed, however, I strongly recommend that you increase this to be more in line with realistic costs we are hearing. **Chart A to $95,000** and Chart B to $106,000. For **(b) increase to $130,000 per unit.**

Section IV.A.(ii). Add another Secondary Amenity, **an additional "Service" for 3 points**. As you know, Services can be gas stations, restaurants and banks. In the current QAP, you only get credit for one of these and the site may not win an award if it is not close to a park or healthcare, even though it has banks, gas stations and restaurants that our residents typically frequent on a daily basis more than that health care, for instance. Additionally, **remove the language "To qualify as a Pharmacy**, the establishment must have non-medical general merchandise items for sale. " Allow any Pharmacy that sells prescriptions and medical devices since the grocery store and shopping listed under Primary Amenity already carry general merchandise. This will allow smaller pharmacies to operate and be counted near our apartment sites.

Section IV (F) (2). I am very concerned about you removing the **credits per unit average** and then having the **2nd Tiebreaker** as Lowest Credits Per unit as this will result in a race to the bottom that we had in years past. This was not good for the program and incentivized developers to submit unrealistic numbers to maximize their chances for an award. I would prefer changing the 2nd Tiebreaker in IV (F)(8) to the following: (b)Second Tiebreaker- the Project that would be the <u>only</u> project funded for a Developer in the current round, regardless of the set-aside and including bond projects in that round. I would like for the 3rd Tiebreaker to be-(c) Third Tiebreaker- the Project by the Applicant with the most 9% projects in NC in the last five (5) years and with the highest percentage of their 9% and 4% funded 2019 and 2020 projects that have begun construction. 4th Tiebreaker (d) Fourth Tiebreaker-Project with the highest amount per unit of non-LIHTC subsidy sources from third-party sources, that meet the requirements of the QAP. Examples include: RPP, CDBG, HOME from local municipalities, below market soft pay loans/grants. 5th Tiebreaker (e)Fifth Tiebreaker- the Project/site that was submitted the most in the previous rounds by that same developer. 6th Tiebreaker-(f) Sixth Tiebreaker- no prior year tax credit approved in that project's census tract.

I agree with giving each developer 2 bonus points in **Section IV (F)(3)** and only allowing **each project to receive 1 point**. Clarify that developers only submitting one project, only get 1 point. However, this does make the Tiebreakers even more critical. WE absolutely cannot keep the current 2nd Tiebreaker as it will result in problems for the program.

Section II (D)(2). Choice Neighborhoods- change to The Agency will award one (1) new construction project not to exceed **$1,200,000 in credits** which contains CNI funds, as determined by the Agency.

Section IV (B)(a)(b)(c). To help with rising costs and us not being able to utilize the 80% AMI going forward. Lower the 2 points in each county type (high, moderate and low) to a requirement of **<u>20%</u> instead of 25%** @ the applicable AMI % per county type.

Section IV (c)(2)(vii)-If you are indeed requiring all projects with federal funds to register with **SAMS** going forward, add the language "The Ownership entity for any project approved with RPP or any variation of federal funds, NTF, must be registered with SAMS prior to starting construction." They must not have a Principal listed on SAM.gov as being ineligible to receive federal funds.

Thank you for your consideration.

Respectfully,
Traci