MCCORMACK
BARON
SALAZAR

December 1, 2021

Mr. Scott Farmer, Executive Director
Ms. Tara Hall, Director of Rental Investment
North Carolina Housing Finance Agency
3508 Bush Street
Raleigh, North Carolina 27609

Dear Mr. Farmer and Ms. Hall,

McCormack Baron Salazar and our partners in North Carolina appreciate NCHFA listening to the comments provided on the First Draft 2022 QAP and implementing some of those recommended changes. While we feel the Second Draft 2022 QAP has improvements, we have a few additional comments and recommendations to make. Please see them below.

It was wonderful news to hear that the North Carolina state budget was passed, signed into law by the Governor and that it included $170M of funding for the Workforce Housing Loan Program. This will be a tremendous asset to help build affordable housing projects in North Carolina during this particularly high construction cost period. **We request that the Maximum amounts by County Income Designation be reevaluated because of this additional funding to the Workforce Housing Loan Program.** We believe this should be increased as dense urban areas such as Winston-Salem and Durham are costly locations to build affordable housing projects. The disparity between the High ($250,000) and Moderate ($1,500,000 County Income Designation of Maximum funding is significant. The difference between High and Moderate should be brought closer to the difference between Low ($2,000,000) and Moderate and allow this funding to support urban revitalization through affordable housing projects for low-income families. If this is controlled outside of NCHFA's realm, then maybe we could work together to lobby for a change?

We are appreciative that Line 5 and 6 of Project Development Cost (PDC) per unit has been raised by $10,000 in the Second Draft QAP. Notwithstanding the proposed revised Maximum Project Development Cost of $95,000 for Chart A, $106,000 for Chart B and $115,000 per unit, it doesn't align with a recent construction quote that we received in North Carolina on a project that will close in 2nd quarter 2022. The quote that we received ranged from $130k to $140k per unit for the Construction of New Building Line 5 costs. As we previously noted in our letter to you on May 12, 2021, HUD has recognized the construction cost increases and provided notice PIH 2020-05 which allows a waiver to increase their current Total Development Cost limits by 25-50%. Many State HFA's have implemented creative solutions to help developers continue to build desperately needed affordable housing in these challenging times. For example, the state of Missouri removed their Total Development Cost limits in their 2021 QAP issued September 1, 2021, and the state of Florida implemented increases in Total Development Cost limits. Additionally, the state of Louisiana has provided additional waivers for their Total Development Cost limits, including CNI projects. Georgia and Missouri have allowed applicants to apply for additional tax credits. **Therefore, we request that NCHFA remove these limits on Line 5 and 6 of the PDC for the 2022 QAP due to the current construction environment. If NCHFA maintains the limits, we recommend the maximum limit be increased to $140,000 per unit, $132,000 per unit for public housing redevelopment projects, or $116,000 per unit for all other projects.**

Regarding the Principal Limits of $2m in tax credits, **we request that the 2022 QAP increase this limit to $2.4m** to align with the maximum tax credits per project of $1.2m. If a Principal can receive up to two new construction awards, the two projects can support tax credits of at least $1.2m (in many cases much more) and be competitive with other projects in scoring points, then we believe both projects should have the opportunity to be awarded the $1.2m tax credit award. As noted previously, all projects are faced with rising construction costs and financing resources for affordable housing are scarce. The scoring/points system that NCHFA has established provides the competition needed to award the best projects in the state with tax credits.

**We request that NCHFA allow 2021 tax credit allocations the same ability to request a new tax credit allocation as the current draft 2022 QAP does for 2019 and 2020 tax credit awards.** Due to ongoing construction delays from supply chain issues, labor being difficult to find, etc. the uncertainty of the length of construction is an ongoing problem. The Winston-Salem Choice Neighborhoods Project has a HUD grant expenditure deadline of six years, ending September 30, 2026. If the funds aren't spent by then, they will be returned to HUD, as there is no extension that can be granted. If NCHFA isn't comfortable with allowing projects awarded with 2021 tax credit awards to request a new tax credit allocation, then we kindly request that language be added to the CNI Set-Aside at a minimum, to allow tax credits for CNI projects to be swapped without penalty when applying for a 9% award under the next year's QAP/tax credit allocation cycle.

Once again, our sincerest thanks for your partnership and for the consideration of our comments for the 2022 draft QAP. As always, please do not hesitate to let us know if you have questions or need any additional information.

Sincerely,

Sandra Seals
McCormack Baron Salazar
Senior Vice President, Project Management