
COMMENTS FOR THE 2022 LIHTC PROGRAM

Below please find the comments and recommendations from the Affordable Housing Coalition of South Carolina as they relate to the 2022 QAP. Our QAP Committee is comprised of for-profit and nonprofit developers with significant LIHTC experience and a proven track record of successful development in South Carolina. As the committee members evaluated the QAP and developed recommendations for improvement, their primary concern was that the QAP needs to focus on the mission statement of SC Housing, *To Create Quality Affordable Housing Opportunities for the Citizens of South Carolina*, with an emphasis on minimizing the costs and complexity of development. Our recommendations are divided into the Key Issues that developed from committee discussion and specific recommendations for improvement within the QAP.

KEY ISSUES

As the Committee discussed issues, four key areas emerged:

- 1) **Site Scoring** – There is too much reliance on the Palmetto Opportunity Index and AHC recommends that the distance to services model should be revisited. There are concerns regarding the accuracy and relevancy of the POI data along with the group distributions.
- 2) **Deeper Income Targeting** – The LIHTC program was designed to support workforce housing. Requiring projects to serve 20%, 30%, and 40% populations without some dedicated rental assistance is detrimental to the success of developments. In addition, serving the ELI population may often require the need of social support services that LIHTC developments do not have the ability to provide.
- 3) **Qualified Contract Restriction** – This stipulation is unfair and should apply only on deals funded with this understanding upfront, awards made in the 2020 and later cycle.
- 4) **Construction Standards** – These have become excessive and many are very expensive with negligible benefits. In an effort to control costs and be good stewards of the program funds some of the standards need to be eliminated or modified to make the program be more cost effective.

Please see the comments listed below in the itemized list that provides supporting information on these key areas.

SPECIFIC RECOMMENDATIONS

In addition to the primary areas of concern, the Committee had specific recommendations on QAP items that are listed below:

1. **Appendix B Development Design Criteria** -The entire Appendix B- Development Design Criteria should be reexamined. The design criteria mandated far exceeds what is needed to create sustainable affordable housing. SC Housing talks about cost containment however many of the mandated design criteria has increased cost to the developments. In addition, with construction costs rising significantly on a daily basis, the overly zealous construction and design criteria needs to be scaled back to help keep developments affordable. We are building quality affordable housing not Class A market rate developments.
2. **Site Scoring** - To the extent the Palmetto Opportunity Index (POI) remains in place there needs to be a mechanism to ensure lower scoring Group A counties can get funded vs. 3 deals Beaufort/3 deals Greenville/3 deals Richland/ etc. and never getting down to deals in those lower scoring counties. It appears that construction costs are going to stretch credits to a point it is likely the lower scoring counties in Group A won't even get to the point of funding consideration before credits run out. The point scoring needs to be decreased between census tract designations (40/35/30 for instance) as ten points is hard to make up and limit awards to two deals per county. Similarly, there were Group B and C counties that did not have 40-point census tracts meeting any of the other scoring criteria, which essentially made them uncompetitive in those respective pools.

We recommend that in addition to the POI Scoring, that points for distance to essential services (a grocery store, a convenience store, a drug store and a restaurant) be added to the QAP. Have distances within 1.5 miles or 2 miles for larger cities/towns and 2 and 2.5 miles for smaller cities/towns (i.e. less than 10,000 in population).

The POI criteria are used for both the LIHTC and SRDP programs which target the same census tracts so developers for both programs are targeting the same census tracts in the same counties. SRDP should not be a mini tax credit program using the same point criteria. Funding for SRDP is flexible and should be used to target the more rural areas of the state where tax credit developments are hard to make work financially. The two programs should have separate point criteria in order to spread out SC Housing's funding throughout the state and eliminate the same counties and census tracts being funded.

3. **Supportive Housing Units** – The tax credit program was intended to be for workforce housing developments not supportive housing developments. Setting units/rents at 20% AMI is setting these properties up for potential issues in the future. If a disabled individual or household with disabled person(s) can pay no more than \$120-150 a month in rent, they very likely do not have money to pay for utilities or other basic needs. The LIHTC program as written has no requirement for supportive services, but with this stipulation now we are required to serve a population that has a clear need for supportive services. We

understand the objective, but if not done in tandem with social services and the assistance of other funding programs and rental assistance, randomly injecting 20% units is likely creating scenarios of delinquency and extreme burden on management. In speaking with DMH, housing authorities, etc. this is a lower bar than even set by their organizations. According to management, this is lower than the income qualification for most fixed income households. In many counties the 20% AMI incomes are so low that households receiving assistance from SSI are actually over income for the 20% units.

In addition, incentivizing developers to target a percentage of units to 30% - 40% income groups when there is no project based rental assistance is reckless. In order to accomplish this, you have to charge higher rents on the other units in order to cover the lost income on the lower income units which thereby creates rent over-burdened tenants at the 50% - 60% income levels. These are financial transactions that need to remain viable and pushing tenant targeting to lower levels with no financial incentives to cover the loss of revenue creates financial issues over the long term.

4. **Qualified Contract** - Developers should NOT be penalized for participating in a qualified contract on any developments funded prior to 2020. These developments were put together and financed when the program specifically allowed for the opportunity to request a qualified contract. This is a disservice and disadvantage to developers that have built thousands of affordable units compared to developers that just started developing affordable housing. This action forces experienced developers to forfeit opportunities to use all tools possible to refinance these older developments to make them continue to be affordable and it strips equity and value from these developers without any compensation. SC Housing is placing the entire burden of maintaining an aging portfolio of affordable housing communities on the development community without offering any assistance or support for them to do so and in this QAP deterring it by arbitrarily capping the developer fees on rehabilitation developments, as well as being penalized via 8823s.
5. **Survey Requirements** - The cost to complete a full survey for the application is onerous and unnecessary. The level of engineering and survey required to submit an application is excessive from a cost standpoint, and that requirement should be moved back to post award as it was in years past.
6. **Local Funding Support** - The local housing support funding definition is too narrow (1% at 20 years), unless the intent was for this to only apply to CBDG and HOME funds. There are many mission-based lending sources in South Carolina that would willingly support the LIHTC program, but their funds are excluded under this definition. There are also numerous state-wide organizations that would not qualify as lenders because they are not "local". These organizations are CDFIs, consortiums, etc. and cannot lend at 1% for 20 years, but their funds could be a valuable contribution to a deal even if structured with a higher interest rate/lesser term. Please evaluate local funding support points, clarify the definition, and seek input from the non-profit community and other organizations on how they can provide their funds to work in these projects. We also recommend basing the

points instead of on a dollar amount per unit to a percentage of funds related to the total development cost.

7. **Two Tier Application and Timing** - The two-tier program was a great shift and saved developers a great deal of time and money not chasing deals that never had a chance of being funded. Please keep this two-tier process in place. However, we do recommend moving the full application deadline up to late April rather than late May which would keep SC's final application deadline from stacking up on top of North Carolina, Virginia, and numerous other state's established deadlines for submission.

We also recommend that the initial application disclose if the developer is a for-profit or nonprofit developer.

8. **Non-profit reporting requirement/Tab 7** - If a deal is not submitting for consideration under the 10% non-profit set aside, items under Tab 7 should not be required just because a non-profit entity is part of the applicant entity. That was the case in prior years, and we assume it was unintentional to require this of non-profit partners in the 2021 cycle.
9. **Missing Items and Checklist** - We are extremely glad that SC Housing has dropped the position maintained in prior years where points were deducted for single missing items. However, some standard for completion should be set for full application submission. The comment has been made that "you could submit an application missing 20 items and just pay the fees if needed". This could be a non-issue, but if in fact 2021 applications were submitted with excessive documentation incorrect or missing, thus slowing down the review time of SC Housing, we think some standard should be set for completeness so SC Housing is able to adhere to the timeline put forth at the beginning of the QAP cycle and upon which all applicants' land options were determined.

We also recommend that SC Housing create the Application Checklist to match the QAP submission criteria. There are many items listed as needing to be provided in the QAP that are not listed on the checklist.

10. **Junior Developer** - There should be a limit on the number of applications in which a junior developer can be involved.
11. **County Awards** - The number of applications awarded per county should be limited to 2 per county in order to spread the credits throughout the state. The award limit per county should be restricted only to new construction developments.
12. **Senior/Older Person Properties** - There should be no limits on the number of older persons developments per county. This is an analysis that should be determined by a market analyst and the market study not an arbitrary decision by SC Housing. If SC Housing feels the need to limit the number of awards per county for older persons, then we recommend 2 new construction family developments per county and 1 new construction older person per county.

13. **Agreeing to Criteria** - In several places in the QAP it states the developer must provide a statement agreeing to abide by certain criteria. In order to ensure all developers are certifying to the same criteria, we recommend SC Housing either create forms for these items or create a checkbox in the full application for the developer to check off. Examples of “provide a statement” can be found on page 7, item V.2. and page 8, item V. 3.
14. **Environmental Assessment Report** - A Phase I Environmental Assessment Report should be a threshold document submitted with the full application. Both the developer and SC Housing need to know if there are environmental issues before an award is made.
15. **Additional Utility Allowance Schedule for Energy Efficient Certifications** - If a developer commits to meeting green and energy efficient sustainable building certifications then an additional utility allowance schedule should be added allowing the developer to meet the proposed utility allowance created by the certification program. The cost of building to these higher standards and the energy savings realized by doing such are not realized with the current list of utility allowance options.
16. **Required Financial Capacity** - Required financial capacity should be an established benchmark to meet. Unless SC Housing is reviewing the list of all LIHTC, Bond, Market Rate developments and any other financial obligations a developer has committed to, there is no way to determine whether a developer has the financial capacity to undertake planned LIHTC developments with SC Housing. We recommend a threshold of \$500,000 in cash and \$2.5 million in net worth as minimums, which is what lenders typically require.
17. **Bedroom Requirements** - Developments targeting families should have a minimum number of three or more bedrooms as families with children typically need more bedrooms but SC Housing should not dictate the percentage of other bedroom sizes in a development as that is a function of the market analyst and the demand in the market area.
18. **Syndication Range** - SC Housing should establish a syndication range based on a survey of syndicators. The range should be included in the QAP or at least announced early through a Bulletin.
19. **Funding and Debt Service** - SC Housing incentivizes having other funding so that SC Housing funds are less than 70% of the awarded sources. To achieve this percentage, you must increase permanent debt which results in higher rents to pay debt service. The Housing Needs Assessment states that 25% of SC renters experience severe cost burden and are paying more than half of their gross income on rent. After the pandemic and lost jobs, the percentage of renters that are experiencing severe cost burden is probably higher. Incentivizing more debt and higher rents should not be a goal for any affordable housing program. Maximizing debt causes financial pressure on the development throughout the compliance period and results in a higher debt level at year 15 when these properties will desperately need rehabilitation.

20. **Revitalization Points** - Points for revitalization should be lowered from 10 to 5 points. If a city/county has an established revitalization area for one or more specific neighborhoods or areas within the locality that has specific publications, maps, neighborhood plans showing that public input was obtained when the revitalization plan was developed then those documents should be acceptable to the SC Housing as verification of a revitalization area. Developers should not have to detail single point criteria within published documents. We agree that Countywide Consolidated Plans are not acceptable as a neighborhood specific revitalization plans and should not be allowed for points for community revitalization plans.

21. **Tie Breakers** - Recommend eliminating tie breaker C, *Project Concerted Community Revitalization Plan*, as you already incentivize revitalization with points in the QAP scoring.

Recommend eliminating tie breaker D, *projects with the lowest share of TDC funded by the Authority*, as this is a race to the bottom and encourages developers to underestimate their costs to get an award.

22. **Electronic Signatures** – Allow for scan/fax/electronic signatures. Currently, scanned versions of the application are accepted and allowing scanned, faxed or electronic signature would be consistent with that procedure.

23. **Maximum Developer Fees and Overhead** – Reinstate the 15% developer fee and overhead as allowed under Section 42 of the Code. Developer fee covers a myriad of costs not seen by SC Housing, including, but not limited to, office salaries, healthcare, rent, dead deal costs, as well as acting as a buffer for unseen development issues and unseen and uncontrollable increases in costs.

24. **Deferred Developer Fee** – As long as the developer can demonstrate the deferred developer fee is repayable within the time period allowed for by the Code, the amount deferred should not be arbitrarily capped.

In addition, on Page 18, Item 11, Funding Sources, the deferred developer fee note is same as deferred developer fee statement. This should be required at placed in service, not initial application, if at all.

25. **Contractor Cost Limits and Cost Certification** – please allow this to be at the discretion of SC Housing and not a requirement. If the application is approved by SC Housing and awarded credits, it should hold that the costs submitted therein were acceptable. This is an unnecessary and additional cost.