From:	Matt Verboon
To:	TaxCreditQuestions
Cc:	George Baker; Andrea Wolford
Subject:	[External] CPC Comments to the 2023 Draft QAP
Date:	Friday, August 26, 2022 4:17:08 PM
Attachments:	image002.png image003.png

To whom it may concern,

CAHEC Properties Corporation respectfully submits the below comments, questions, and requests for clarification to the 2023 Draft QAP. Please let me know if you have any comments or questions!

QAP Page 7 F. Developer Award Limit

The Authority will limit members of a Development Team to eight (8) awarded applications that have not submitted a complete Placed-in-Service application by the application deadline.

CPC Comment: For tax-exempt bond portfolio deals, it may require that more than 8 applications will need to be submitted. For purposes of this section, please confirm that a portfolio, tax-exempt bond will be treated as one application.

QAP Page 7 G. Required Development Experience

In order to participate in the LIHTC program, the proposed owner's general partner(s) or managing member(s) must have experience within the last ten (10) years in

- *Four (4) LIHTC projects in South Carolina; or*
- *Eight (8) LIHTC Projects in other states.*

CPC Comment: Proposed language increases the barriers to entry for new developers. Please consider adding back in the pathway for partners without the necessary experience to gain the required experience by being a Junior Developer. Additionally, the increased requirements from "two and four" to "four and eight" are unnecessarily burdensome. If surrounding states follow South Carolina's lead in this requirement, it will be very difficult for new developers to enter the industry.

QAP Pages 11 and 12 O. Rehabilitation

3. No ~~more than ten percent (10%) of the~~ existing tenants may be permanently displaced. Rents for households under lease as of award may not increase more than 3% in the next two renewals.

CPC Comment: Suggest reverting back to 2022 language that states "no more than 10% of existing tenants may be permanently displaced (or 5%)". It would allow the developer to maximize services to households most in need of affordable rents.

Rent increase restriction to no more than 3% for next two renewals.

CPC Comment: For *existing projects receiving acquisition/rehab credits*, rent increases above 3% may be required to cover unforeseen expense increases (taxes, insurance, utilities, other costs that cannot be manage or controlled). Since the Tax Credit Manual requires all rent increases to be approved by the SCSHFDA Compliance Monitoring Department; can we remove this restriction for the first two years?

Rehabs completed at properties with 521 RA Agreements will, for any unit that does not have rental assistance, fund a private rental reserve to ensure that any rent increase associated with the rehab is not paid by an existing resident for so long as they reside at the property. After that RD properties are subject to RD annual review of rents and expenses by RD and rental rates are approved by RD. **Add** - *"Exceptions will be considered for properties with project-based rental assistance contracts."*

4. All buildings must be at least 20 years old and not be deteriorated to the point of requiring demolition.

CPC Comment: *Please confirm that the building age is used to meet this criteria and not the most recent placed in service date.*

QAP Page 13 P. Financial Underwriting – (7) Debt Coverage Ratio.

The pro-forma must demonstrate maintaining not less than a 1.10 DCR throughout the first 20 years of operations.

CPC Comment: Request carve out for USDA Rural Development transactions that are underwritten by USDA and have conflicting underwriting requirements. Language to consider:

> "may waive its minimum debt coverage ratio for USDA 515 developments that clearly demonstrate feasibility, or reduce it to match other government program funding requirements"

QAP Page 14, Financial Underwriting (11) Annual Rent, Expense Trends and Vacancy Rates

For developments with project based rental assistance on at least fifty percent (50%) of the total units, the Authority will consider allowing a five percent (5%) vacancy rate if the development can demonstrate a history of lower vacancy rates for an extended period of time. The applicant must request the five percent (5%) vacancy rate and provide justification. The Authority will have sole discretion in utilizing a five percent (5%) vacancy rate for underwriting

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CPC Comment: To meet the debt service coverage ratio requirements the applicant needs to correctly project income. Could the request to use a 5% vacancy rate be presented and confirmed / denied by the Authority before the application deadline?

QAP Page 21 2. Rehabilitation Set-Aside

REHABILITATION (~~*10-15*~~20 - 25%)

Rehabilitation projects. The Authority will award $600,000 of this set-aside to RD projects (or the total among eligible applications if less).

CPC Comment: Since the rehabilitation set-aside was increased, will there be a commensurate increase to the amount awarded to RD projects?

QAP Pages 31 and 32 (Appendix C2) II.B.2.

Portfolio Transactions must be "*developed under one plan of financing and considered a single development by all funding sources*".

CPC Comment: *In a portfolio transaction, it is common to use similar forms of financing but with individual borrowers at each property that are all part of one bond issuance. Each properties' debt is not typically cross-collateralized in a portfolio structure.*

QAP Pg 37 Reservation Fee (.88% of total qualified basis)

CPC Comment: If a project is gap-restrained, the development is minimizing state resources by requesting less credits and under the new fee structure will be charged disproportionately. Is the fee calculated based upon qualified basis as of the time of application or placed-in-service?

QAP Pg 37 Waiver Fee ($1,000 per item)

CPC Comment: Recommend SC Housing provide a waiver form that allows 10 waivers per fee charged (by category). For example, if six mandatory design criteria waivers are requested, a fee of $1,000 will be charged.

APPENDIX E 2023 LOW-INCOME HOUSING TAX CREDIT MANUAL
VI. COMPLIANCE MONITORING PROCEDURES

B – Rent Increases

Developments cannot increase rent levels without approval from the Compliance Monitoring Department. Rent increases in excess of 5% annually may not be approved.

CPC Comment: The absolute maximum of 5% rent increase is not consistent with recent economic trends. In addition to the current trend of overall higher costs, properties can incur, from time to time, dramatic increases in taxes, utilities or other costs that can't be managed or controlled. Also, properties with project based rental assistance (RD / HUD properties) often have lender-imposed requirements related to expenses that work in conjunction with the rents that are also approved by the Lender / Rental Assistance provider.

Recommend some flexibility concerning any annual rental rate cap to allow owners and property managers to effectively manage and maintain quality service and housing at each property.

Sincerely,
Matt Verboon

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