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SC Housing
300-C Outlet Pointe Boulevard
Columbia, SC 29210

RE: 2023 Draft QAP Comments

Thank you for the opportunity to submit comments on the 2023 Draft QAP. For your convenience, I have enclosed our comments for your review. Please do not hesitate to contact us if you have any questions about the comments or need any clarifications.

Thank you,

Craig Cobb
VP of Affordable Housing

Draft 2023 QAP

Section III – Threshold Participation Criteria

Subsection G – Required Development Experience

- If a Developer does not meet the experience criteria described in Section IIIG of the QAP, please provide the procedure and timing for a Developer to request the Authority to consider other criteria to show sufficient developer experience.

Subsection H – Required Management Experience

- Similar to our previous comment, please provide the procedure and timing for a Developer to request the Authority to consider other criteria to show sufficient experience of its management team.
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Subsection O, #3 – Rehabilitation

- As drafted, this subsection caps tenant rent increases to no more than 3% at each of the first two lease renewals. Projects with Project Based Rental Assistance, like a Section 8 HAP Contract may be unable to comply with both this requirement and the requirements of the HAP Contract. Certain Section 8 HAP Contracts allow the owner to mark the rents up to market which is supported by a third-party Rent Comp Study which is reviewed/approved by HUD. Owners are contractually obligated to mark the rents up to market at certain points and the amount of the increase is out of the owner's control. Arguably, this is an increase in subsidy and not an increase in rent, however, the HAP Contract describes this increase as an increase in rents. Where a Project receives subsidy from a HAP Contract, the HAP Contract governs the calculation of the portion of the rent that the tenant must pay. The resident portion of the rent only increases if the resident has an increase in their income, which the owner has no control over. Given the complexity of the calculation of rents and subsidies under Project Based Rental Assistance Programs, we would respectfully request that you consider a carveout for properties with Project Based Rental Assistance similar to the new language in Subsection P, #11.

Subsection P – Financial Underwriting

- #6 – Please confirm that the inclusion of the word "may" in the second sentence of this subsection is intended to permit the use of the annual operating expense range represented in the QAP during the year of the Initial Application or the annual operating expense range represented in the QAP that is current at the time that the placed-in-service application is submitted to the Authority, at the option of the Developer.

- #7 – Please confirm that a project can exceed $900/unit of projected annual cash flow if the DSCR does not exceed 1.45. We would propose that the Authority include a carveout for properties with Project Based Rental Assistance, such as Section 8 HAP Contracts, for the same reasons stated in our comment on Subsection O, #3. Typically, properties with Project Based Rental Assistance are older properties. Large rehabs help limit extraordinary maintenance, but additional cash flow provides an additional source of funds to address larger capital expenses during the compliance period without having to deplete the replacement reserves. While we understand the need to preserve resources, for older properties, increased annual cash flow is advantageous and should be encouraged.

- #15 – New language requires that an approval letter from HUD by provided to support increased rents at the time of application. We ask that the Authority consider the Developer's Rent Comp Study and proof that the rent increase package has been submitted to HUD in lieu of an approval letter from HUD. The application process for increasing rents based on a rehab of a property subsidized by a Section 8 HAP contract is unpredictable with respect to timing; our recent applications have taken 16 or more weeks to receive HUD approval. Providing the Rent Comp Study and proof of submission to HUD should give the Authority sufficient assurances to underwrite a post-rehab rent increase. The Authority is requiring proof of the approval letter from HUD at placed in service which is appropriate.

<u>Appendix C1 – 9% LIHTCs</u>

<u>Section III – Application Groupings, Set-Asides and Requirements</u>

<u>Subsection E – Maximum LIHTCs Per Unit</u> – We would request that the Authority post the maximum LIHTCs per unit amount, if any, within [30] days. The reason is the way the eligibility for state LIHTCs is written is a Developer must ask for the full amount of federal LITHCs before asking for state LIHTCs. If there is no maximum amount of LIHTCs per unit for 2023, as has been the case in recent years, then many 9% LIHTC applications will not need to request state LIHTCs. Developers need to know very early so they can make appropriate assumptions.

<u>Appendix C2 – Tax-Exempt Bonds</u>

<u>Section II – Criteria</u>

<u>Subsection B – Requirements</u>

- <u>#5</u> - We ask that the Authority remove a minimum number of units to be eligible to submit for a tax-exempt bond award for a few reasons:
  - There is a gap for County B counties where properties between 61-69 units cannot apply for any tax credits.
  - There are smaller properties with Project Based Rental Assistance in areas with strong rental markets that can increase rents enough (HUD subsidized portion) to support the transactional costs associated with tax-exempt bond deals.
  - There are older, smaller properties in the state that do not fit any of the 9% criteria that are financially feasible as tax-exempt bond deals and they should have another path for renovation beside waiting for the 9% cards to fall in their favor.

- <u>#8 – Developer Fee</u> – We ask that the Authority consider removing the $3 million dollar cap and consider increasing the Developer Fee percentage to 20% or 25%. We see this helping in the following ways:
  - The increase in overall Developer Fee will increase the eligible basis which will bring in more federal LIHTC equity. This could result in Developer's needing less state LIHTCs and in some cases none.
  - Other states in the southeast have 20%-25% Developer Fees on tax-exempt bond deals and the increase in basis/federal LIHTC equity helps those deals be financially feasible without state LIHTCs.

Section III – Ranking

Comments:

- We feel that this ranking will strongly favor new construction family properties to the detriment of rehab to existing properties and for properties targeting elderly residents for the following reasons:

    - State resources per heated residential square foot is an advantage to new construction units because they are much larger than units at existing properties that were built 40-50 years ago, many of which have never had a rehab and are in dire need of one.
        - This puts all elderly properties at a large disadvantage. They are typically 1-bedroom units and have a huge amount of common area (hallways, elevators, community rooms, etc.) that must either be constructed or have costly renovations, so most of the square footage of these buildings do not count for this calculation, but significantly increase costs.

    - State resources per bedroom favors new construction because Developers can manipulate their unit mix to maximize this score. Whereas existing properties are limited to the unit mix they have.
        - As mentioned above, elderly deals are at a huge disadvantage in this category because they are mostly 1-bedroom units.

    - State resources per dollar of total project costs is a "race to the bottom" which is never a good thing.

    - State resources per potential tenant is like ranking items #1 & #2 above in that it favors new construction projects where Developers can manipulate their project to maximize this scoring and brings the same disadvantages to existing properties and elderly deals as mentioned above.
        - Also, will SC Housing be publishing methodology for determining potential tenants to be housed in a project? This seems to echo the State resources per bedroom above and is redundant.

- We ask that SC Housing set-aside a portion of the volume cap and state LIHTCs allocated to tax-exempt bond projects that will be for rehabilitating existing properties.

  - One suggestion is to consider how the Tennessee Housing Development Agency tweaked their tax-exempt bond program in 2022. Historically, they were a first come, first served program, but went to two rounds in 2022. Round 1 had applications due in March and scoring criteria favored rehabilitating existing properties 66% of THDA's volume cap was awarded in Round 1. This yielded 17 awards (12 rehabs & 5 new construction). Round 2 involves the remaining 33% volume cap plus a little leftover from Round 1 and its scoring criteria favors new construction deals. It appears that THDA will fund approximately 10 new construction projects in Round 2. Overall, this is going to produce a very balanced allocation between rehab deals and new construction deals.

<u>Questions/Clarifications Needed:</u>

- How will the 4 ranking categories be scored or weighted? This isn't clear if the rankings are listed in order of importance or if all categories are scored.

- How does the 30% rural adjustment and 10% new construction adjustment work? Can you provide everyone an example?

  - The way I interpret this is it is a 30% and/or 10% boost to the state resources which would seem to make the scores worse because it would look like a Developer is asking for more state resources than they are requesting which would be a disadvantage. Please provide clarity on these adjustments.

- How will a tax-exempt bond application that doesn't request state LIHTCs be prioritized?

Appendix C3 – State LIHTC

Section II – STC Processes

- We request the Authority consider allowing any unused 9% state LIHTCs to be allocated to tax-exempt bond deals. The $20 million annual cap would still be in place so it shouldn't matter what amount is used on 9% projects and tax-exempt bond projects.
  - If there is no maximum amount of LIHTC per unit on 9% projects for 2023 then most of the state LIHTCs set-aside for 9% projects won't be used.
  - By having the $20 million annual state LIHTC cap be more fungible, the Authority will be able to create more affordable housing for South Carolinians which is everyone's goal.