SUGAR CREEK CAPITAL
A forward approach.
17 West Lockwood Avenue
St. Louis, MO 63119
p: 314-968-2205

Kim Wilbourne
Tax Credit Manager, SC Housing
Cc: Bonita Shropshire, Executive Director

Mrs. Wilbourne,

Sugar Creek Capital would like to thank SC Housing for the opportunity to comment on the 2023 Qualified Allocation Plan (QAP) for Low Income Housing Tax Credits (LIHTC) and the South Carolina housing tax credit (State credit). Sugar Creek invests in State credits across the country, and while our typical practice is to defer to the local development community on the specific policy points of the QAP that impact their work, we have a specific and heightened concern with the 2023 QAP and its potential impact on affordable housing in the state, hundreds of South Carolina families, and the LIHTC industry overall. We have included our comments below in bold italic font.

III. RANKING

State law requires the ranking determination to be based on highest value and greatest public benefit. The ranking criteria below has been adopted by the Authority and the Joint Bond Review Committee in accordance with Act 202. SC Housing will maximize the federal LIHTC allocation, determine if STC is needed for financial feasibility, and will then rank the eligible projects based on:

- State resources per heated residential square foot
  - This criterion will rank projects from lowest to highest, based on a calculation of state resources (bond ceiling and state tax credit) per heated residential square foot (i.e., excluding common areas), to demonstrate the most efficient use of state resources for the portion of total project costs applicable to actual tenant housing.
- State resources per bedroom
  - This criterion will rank projects from lowest to highest, based on a calculation of state resources per bedroom, to demonstrate the most efficient use of state resources for the number of families the project will house.
- State resources per dollar of total project costs

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  - o This criterion will rank projects from lowest to highest, based on a calculation of state resources to total project costs to demonstrate the most efficient investment of state resources in the project overall.

- State resources per potential tenant

  - o This criterion will rank projects from lowest to highest, based on a calculation of state resources per potential tenant to demonstrate the most efficient use of state resources for the number of potential residents the project will house. A 30% adjustment to state resources will be made as a ranking consideration for projects located in USDA-designated rural areas. A 10% adjustment to state resources will be made for new construction units, as a ranking consideration for projects providing an overall increase in affordable housing. These adjustments apply for the sole purpose of establishing project rankings.

In brief, we believe that the four scoring categories laid out in Section III. Ranking of both Appendix C2 and Appendix C3 create a "race to the bottom" incentive that will have the unintended consequence of creating a downward pressure on development quality as well as a pressure on applicants to build to larger square footages and bedroom sizes than the market might support. Given the larger size and scope of the typical 4% bond development, the failure of a single property due to low quality or poor market targeting could result in a significant risk for the LIHTC program.

In their QAP best practices on "Ensuring Reasonable Development Costs," NCSHA states that:

> *"[…] In developing cost limits, Agencies should balance the efficient use of scarce resources with the need to develop affordable rental housing that is durable, attractive, safe, energy efficient, and healthy. […] While encouraging cost efficient production with realistic cost limits for Housing Credit developments, the Allocating Agency should not give preference solely for lowest development costs. […]in minimizing costs, Allocating Agencies must be certain to adhere to sound underwriting practices, including assuring quality construction, if they are to achieve long-term property viability."*

Limiting the entire scope of competitive scoring for state credits to four categories that each focus solely on achieving the least possible credit requirements is in direct contrast to this NCSHA guidance, risks a "race to the bottom" system, and poses a risk to the LIHTC industry—not just on a deal-by-deal basis,

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but to the state and federal program more broadly. We strongly suggest that SC Housing and JBRC reconsider such an approach, and balance cost-containment strategies with scoring categories that truly encapsulate the idea of "highest value and greatest public benefit": quality developments developed in strong markets with access to opportunity that will continue to perform strongly for the entire 15-year affordability period and 30-year extended use period.

For example, if most deals fall within a safe harbor of efficient use of credits set by the agency, then the agency can identify and disincentivize outliers, thus still encouraging optimization without pressuring applications to the lowest possible credit amounts. An additional side effect of pushing credits to a minimum is that deals will be pressured to take on as much debt as possible, which in turn creates pressure to maximize the rents charged to tenants.

G. Basis Boost

The Authority has determined that all areas of the state are eligible for a boost in eligible basis of up to 130%.

- ***While we commend the agency's desire to adequately fund its 9% awards, exercising the state's optional designation of a statewide DDA reduces the number of deals that will result from the 2023 competition. The result of the 2022 competition will yield that SC Housing was unable to allocate the state credit entrusted to them to address South Carolina's housing needs at a time when the need for affordable housing is at record levels.***

Appendix C-2 – Tax Exempt Bonds

6. MAXIMUM LIHTCS PER UNIT

There is no maximum amount of federal LIHTCs. Developments needing State Tax Credit will be limited to the amount needed to supplement, but not supplant the federal LIHTC and must be limited to an amount necessary only to achieve financial feasibility of the development. See Appendix C-3 for State Tax Credit requirements.

- ***We understand the spirit of the law to mean that no more State Credits will be allocated than those which is necessary to achieve financial feasibility. At this point, we are unaware of SC Housing's definition of financial feasibility and would recommend allowing properties to earn State Tax Credits based on the equity gap calculation to fill the entire potential funding gap as long as that would not exceed Act 202's dollar for dollar limitation.***