LINCOLN AVENUE COMMUNITIES

September 22, 2023

Marni Holloway
South Carolina State Housing Finance and Development Authority (SC Housing)
300-C Outlet Pointe Boulevard
Columbia, SC 29210

Dear Ms. Holloway:

Thank you for the continued opportunity to contribute this feedback on South Carolina State Housing Finance and Development Authority's (SC Housing) forthcoming 2024 Qualified Allocation Plan. Lincoln Avenue Communities is a mission-driven affordable housing developer currently active in twenty-three states. In South Carolina we focus on developing ground-up new construction affordable housing as well as the preservation of existing affordable housing utilizing 9 percent LIHTCs as well as 4 percent LIHTCs and tax-exempt bonds (TEBs).

Maximum Developer Fees, Developer Overhead, and Consultant Fees (QAP pg. 11)
We thank SC Housing for the revisions made to the 2023 QAP concerning the maximum developer fee for 9% LIHTC transactions. Your attention to feedback is evident, and the improvements are recognized. It is crucial to understand that higher developer fees can lead to increased eligible basis and more tax credit equity, providing a safety net as construction costs rise. The significance of developer fees in affordable housing transactions cannot be understated. The IRS's allowance for their inclusion in eligible basis is a testament to their essential role. Beyond just compensation, they cover overhead costs ranging from IT to legal fees and ensure pre-development expenses and resident services are addressed.

We look forward to a continued constructive dialogue on this topic.

Deferred Developer Fee (QAP, pg. 11-12)
We hope to draw your attention back to a critical aspect we previously highlighted: the sizing of deferred developer fees. While the draft QAP outlines a reasonable approach; however, we recommend a small but significant amendment. Given the volatile and unpredictable nature of the current financing environment, we recommend including provisions that allow the deferral of more than 50% of the developer fee. This could be done on a waiver basis, leaving the discretion to the SC Housing staff. Such flexibility is paramount in navigating today's unpredictable challenges.

Developer Fee Tax Exempt Bonds (Appendix C2 pg. 3-4)
We would like to commend SC Housing for the decision to raise the per unit developer fee cap from $25k to $30k for projects financed using tax-exempt bonds. This adjustment is a step in the right direction. However, we must underscore a pivotal concern we previously voiced. We believe SC Housing's developer fee for bond deals remains too low, thereby unintentionally limiting South Carolina's ability to finance a greater number of affordable housing units. This perspective is reinforced when observing higher developer fees in many neighboring states.

Furthermore, we must express our concern regarding the $5 million developer fee cap. This constraint potentially widens project gaps, prompting more projects to seek state tax credits. As a proposed solution, SC Housing might contemplate instituting a hard dollar cap on developer fees for projects requesting state tax credits while abstaining from imposing a cap on projects that forgo such requests. If desired, SC Housing could stipulate that all fees exceeding the $5 million cap or the $30,000 per unit threshold be deferred.

In conclusion, we believe a combination of the proposed measures can reduce the demand for state LIHTC and increase affordable housing production across the state. This strategic move can empower SC Housing to sponsor an augmented number of properties across the state, fostering a more inclusive and sustainable housing landscape.

Rent Increases (Appendix E, Pg. 6)
We are appreciative of SC Housing's efforts to moderate the rent increase language in the second draft. Recognizing the challenges faced by our residents, we remain concerned about the proposed 5% rent increase cap. Current inflation trends have escalated our operating costs significantly, threatening the viability of affordable properties through potential maintenance deferrals and breached DSC covenants. It is noteworthy that HUD's cap on AMI increases currently stands at 5.9%, making this new policy more restrictive than what is Federal policy and housing demographic data dictates. Furthermore, the policy diverges from NCSHA's recent proposed tenant protection practices.

We urge SC Housing to either revert to the former policy, allowing discretionary rent hikes above 5%, or consider a 10% cap. A more effective long-term approach might focus on rent increase notice requirements instead of strict caps.

Lastly, we propose SC Housing create an exception to the rent increase limitation for units with Project Based Rental Assistance or Project Based Vouchers. When contract rents are increased their no financial impact on the residents because their out-of-pocket rents are set as a percentage of their house-hold income. Preservation of HUD assisted properties will be significantly hampered if this exception is not adopted as the post-rehab contract rents in Mark-Up-to-Market transactions is a critical driver of financial feasibility and are often not implemented until after a rehabilitation in completed and occupied by residents. Likewise, it is intentional federal government policy when FMRs, OCAFs and budget-based-rents are increased, driven by legitimate operating cost increases like insurance or utility inflation. It is critical that owners are permitted to capture these increases for operational stability and, as stated above have no negative financial impact on the residents.

Replacement Reserve Requirements (QAP pg. 11-12)
We request SC Housing to update its replacement reserve requirements to align with NCSHA's new Recommended Practice. $300 per unit annually is an appropriate replacement reserve for family/general occupancy properties. New construction properties serving the elderly tend to have less wear and tear and as such it is generally accepted that a $250 per unit annually is an appropriate minimum replacement reserve requirement.

Operating Reserve Requirements (QAP pg. 11-12, 14)
We request SC Housing reconsider the sizing of the minimum operating reserves. We feel that the six-month minimum for operating reserves, which is inclusive of all projected operating expenses and must-pay debt service along with the addition of the replacement reserve, is excessive. On a large bond deal,

this can add more than $1 million of non-basis eligible costs, decreasing leverage and requiring additional need for state gap filling resources. Just the addition of insurance in the methodology can add more than $600 per unit to the reserve requirement in today's market. We recommend SC Housing revert to its previous replacement reserve policy and annual operating expenses methodology.

Additionally, we urge SC Housing to reconsider its requirement that the operating reserve remain with the property post the investor exit. By the time an investor exits a partnership typically in years 11-16 there are typically growing capital needs from wear and tear. We believe it is in the best interest of the property and residents to allow the property to be able access the operating reserve at this stage of the lifecycle to support the needs of the property and residents. Ideally, owners will have flexible access to draw down this reserve. Alternatively, SC Housing could allow the partnership to transfer to the operating reserve to the replacement reserve account.

Additionally, for projects with HUD Project-Based Rental Assistance (PBRA), we recommend SC Housing add language in the QAP that explicitly allows developers to offset the SC Housing minimum by the amount of HUD-controlled operating reserves. These reserves fulfil the same basic function and purpose.

Utility Allowance Methodologies (QAP, Pg. 4)

We want to continue our encouragement of SC Housing to clarify the language in the QAP on pg. 4 relating to permissible utility allowances methodologies. The IRS permits developers of LIHTC properties to select from four valid utility allowance methodologies (PHA Schedule, Actual Usage and Rate Estimates provided by the local utility, HUD model Schedule Model, Energy Consumption model). SC Housing's current allowed UA options does not include the opportunity to utilize an engineered energy consumption model.

There are several important reasons developers should be permitted to use an energy consumption UA model including:

- Traditional utility allowance schedules (i.e., methodologies 1-4) do not differentiate between energy-efficient and typical units or buildings with substantial investments in renewable energy – this creates "split-incentives".
- Public Housing Units, which are the base dataset for the PHA UA, are typically some of the least utility efficient rental units.
- UA's that reflect prospective investments in renewable energy and utility efficiency allow owners to leverage utility savings in their capital stack and overcome split incentives.

They are particularly impactful in helping developers leverage energy efficiency and solar investments to fill project financing gaps. We own projects around the country that are able leverage millions of dollars of additional permanent debt proceeds when we maximize our solar and sustainability scope of work in conjunction with an engineered model. This has been an important gap filler in today's rising cost environment. Engineered Consumption Model UAs have been successfully deployed for years around the country including in California, Colorado, Georgia, New Mexico, Utah, and other states.

Conclusion

LAC appreciates the opportunity to provide feedback to SC Housing as it continues to develop its 2024 QAP. We would welcome the opportunity to discuss them with you further at your leisure and/or answer any questions you may have regarding our feedback. I can be reached directly at [redacted] or tamdur@lincolnavenue.com.

Regards,

Thom Amdur
SVP, Policy & Impact

About Lincoln Avenue Communities

Lincoln Avenue Communities is one of the nation's fastest-growing developers, investors, and operators of affordable and workforce housing, providing high-quality, sustainable homes for lower- and moderate-income individuals, seniors, and families nationwide. LAC is a mission-driven organization that serves residents across 23 states, with a portfolio of 120 properties comprising 22,000+ units.

cc: Julie Davis
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