2025 DRAFT QAP Comments – Connelly Development

QAP:

Threshold Participation Criteria, #4 Physical Needs Assessment Report (PNA), Page 6:

The requirement to provide a PNA report at application submission for rehabilitation developments has been removed and the report is now to be submitted 6 months after receiving an award of credits. This report provides an independent third-party review of the items needing to be repaired/replaced in the development. What happens when items are overlooked and not included in the initial budget provided with the application submission since it is assumed the Authority isn't going to provide additional funding for a shortfall or take away the already awarded tax credits? As currently written, the development will be underwritten and given an award of tax credits without the Authority having a third-party review of potential items needing to be repaired/replaced. We do not think this is a prudent business decision by the Authority and would suggest that reports such as the PNA and Mold Reports be provided with the Full Application Submission so that everyone is aware of issues needing to be addressed in the development budget before an award of credits is given.

Threshold Participation Criteria, #6 Utility Allowance Schedule, Page 7:

For the newly added item (f) engineered energy consumption model, please clarify this is the utility allowance(s) created by the Energy Consultant providing certifications for the application for sustainable building requirements.

Threshold Participation Criteria, #8 Qualified Contract, Page 7:

As stated in prior years we disagree with requiring developers to waive their rights to the Qualified Contract process provided by federal law under Section 42. We feel that by requiring this SC (as well as other states) are forcing developers to give up rights otherwise provided by the intent of federal legislation and laws on a federal program. At a minimum; we suggest the removal of the wording "voluntary waiver" since developers are being required to waive their right of the Qualified Contract process thereby no longer making it a "voluntary waiver" as it was in the past when it was a point score criteria. Even when it was a point criterion it wasn't truly voluntary as most developments could not be competitive if these points were not selected.

Threshold Participation Criteria, P. Financial Underwriting, #1, Development Costs, Page 15:

1. For both the 9% and bond programs, we suggest providing a ratio of minimum required Eligible Basis to Total Development Cost. This prevents developers from artificially lowering their eligible basis in order to push up the state credit request. (Suggested ratio minimum 82%)
2. We suggest the following language change to Development Costs, item (a): "The Authority will determine which applications (criteria should not be limited to just new construction) show development budget amounts outside the standard deviation which will result in a deduction of ***2*** points for a standard deviation of greater than 2.0 or less than or equal to 3.0 or ***4*** points for a standard deviation greater than 3.0. The Authority will use discretion in determining the groups for comparison, i.e. garden style, single family, townhouse type developments will be compared to each other to determine similar development costs. Standard deviations will be calculated from the group average for each type of development submitted within the Set-Aside. Only grant funds provided by local governments will be used as a credit against higher development costs that exceed the standard deviation. "

APPENDIX C-1 - 9% TAX CREDITS

1. Page C1-2, B. Award Limitations:
   - #1 states there is now a limit of one new construction award per county. We request that if PHA's are provided their own set aside that any new construction award made in the Public Housing Authority Set-Aside not count towards the one award per county limit as those units are for the redevelopment or replacement of public housing units.
   - #4 states the following:

     "An application will be ineligible for an award of 9% LIHTCs if:

     - it requests the state LIHTC, and
     - the Authority does not have enough available.

     In that event, the award will go to the next highest-ranking application in the set-aside not requesting state tax credits."

     We believe the wording "the award will go to the next highest-ranking application in the set-aside not requesting state tax credits" is incorrect. As the wording is currently written the Authority will only award remaining applications not requesting state tax credits which we don't think is the intent. There could be an application that ranks high enough and not requesting more in state tax credits than the amount remaining which should be awarded based on its score over an application that simply did not ask for state tax credits. Any application in ranking order should be eligible for an award as long as there are sufficient state tax credits to award.
2. Page C1-4, A. County Groups:

   Based on 2024 county population counts, and assuming the Group A counties are based on population, Lancaster should be removed as its population is less than Florence and Pickens. Removing Lancaster from the list would then include the top 12 most populous counties in SC.
3. Page C1-5, B. Set-Asides:
   - Public Housing Authorities should not have their own set aside in the 9% program. We suggested that the PHA's have their own set aside in the 4% bond program because they have resources that are not available to other (nonprofit or for profit) developers. By providing a set aside for PHA's they can compete within this set aside with other PHA's. PHA's typically are trying to renovate existing properties or build new units on land they already own. Having their own set aside that they compete against other PHA's would give them a chance to be competitive since they would not be competing against other new construction developments that can locate near services for points.
   - We suggest you keep the percentage of credits available to the High Demand New Construction, Rehabilitation and General New Construction at the same percentages as listed in the 2024 QAP. With the limited amount of credit to allocate in 2025 and allowing only one award per county, this would at least give slightly more tax credits to the Group A counties which have the larger populations.
4. Page C1-7, G. Basis Boost:

   The Authority removed the basis boost other than for sites located in federally designated DDAs and QCTs. We suggest adding back the basis boost but limit the boost to 5% or 10% for Group A counties and 20% for Group B counties. We understand wanting to use the annual allocation of state tax credits but completely eliminating the boost, especially in the Group B counties, may be problematic as rents are lower in these counties and finding soft funds to fill funding gaps is more difficult. With no basis boost a larger amount of state tax credits will be utilized which would limit the amount of developments and units awarded in the Group B counties as almost every development you have awarded in the past few years in Group B counties has needed state tax credits to fill funding gaps. Have any models been run on prior applications submitted to see what the financial result of completely removing the basis boost would do to an application? If the basis boost is added back, please add language in this section that all developments are subject to the basis boost and it must be reflected in the funding application.

5. Page C1-10, D. Affordable Housing Shortage:
   Instead of saying "previous "ten, five, three" funding cycles", please list the years. Since 2023 was not a funding cycle, there is the potential for misunderstanding which years count as a funding cycle.
6. Page C1-11, E. Other Types of Tax Credits:
   45L/48E Efficiency/Renewable Credit (Federal) has been added for 5 points. All developments are required to meet Energy Star as per Appendix B- Mandatory Design Criteria. Based on our conversations with energy consultants, a development built to meet the Energy Star requirements meets the Energy Star Version 1.1 requirements which automatically makes the development eligible for 45L credits. Since building to Energy Star requirements every development will be eligible for 5 points in this section. We suggest 45L/48E Efficiency/Renewable Credits be removed from this list as it waters down the importance or necessity of trying to strive for the other credit options listed.
7. Page C1-12, H. Project-Based Rent Assistance:
   - As was mentioned at the QAP meeting, there is a public noticing process for obtaining project-based vouchers and the ability for a public housing authority to be able to provide project-based vouchers has to have been included in the Annual PHA Plan and be approved by HUD. In addition, as we understand it, there is a very limited supply of project-based vouchers that can be obtained and allocated. Has the Authority polled all of the public housing authorities to see which ones actually have project-based vouchers they can provide and how many vouchers are available to allocate? This point criteria is also very subjective based on the fact there is a limited number of project-based vouchers to provide therefore the public housing authority can choose who they want to provide a letter to, perhaps only providing a letter to themselves as they have a set-aside for credits and there is a limit of only one tax credit award per county, thereby ensuring other developers are unable to obtain these points. Lastly, do all housing Authorities have the ability to provide project-based vouchers for the counties they administer the Section 8 voucher program in? If not, then those counties are disadvantaged by this criterion. We suggest this point criteria be removed.
   - In addition, item #2 listed as a penalty, is irrelevant if the public housing authority doesn't provide another letter to a developer in the next two funding cycles. If you want to put a penalty in the QAP then it should be a ban on the public housing authority being able to participate in the tax credit program if they don't provide the project-based vouchers to an awarded development.
8. Page C1-13, I. Supportive Housing:
   - Lower the 10% of total units targeting 20% AMI to 5% of the total units targeting 20% AMI as the Authority has an abundance of developments that have not yet placed in service and are targeting this income level so there will soon be an abundance of 20% units trying to be filled at the same time. We also suggest you talk with the State Agencies that are to provide these tenants to see what their need is at this point.
   - We suggest you seek the input from State Agencies providing the 20% tenants to see which counties they want to target for 20% tenants as some of the more rural counties, while there may be a need, there are no service centers in close proximity to assist these tenants.
   - The 20% units are basically free units as the rents paid do not cover the operating costs for the unit. The other units in the development (50% and 60%) are having to have rents set at or close to the maximum rent limits in order to cover the operating costs of having 20% units. This is a reason to lower the 20% units to targeting only 5% of the total units at this very low-income band.
   - Consider increasing 20% AMI units to 30% AMI units. As stated above the rent generated does not cover operating costs and the other higher income units are having to cover the operating costs of the 20% units.

9. Page C1-13-14, J. Development Costs:
   We suggest the language be changed to: "The Authority will determine which applications (should not be limited to just new construction) show development budget amounts outside the standard deviation which will result in a deduction of ***2*** points for a standard deviation of greater than 2.0 or less than or equal to 3.0 or ***4*** points for a standard deviation greater than 3.0. The Authority will use discretion in determining the groups for comparison, i.e. garden style, single family, townhouse type developments will be compared to each other to determine similar development costs. Standard deviations will be calculated from the group average for each type of development submitted within the Set-Aside. Only grant funds provided by local governments will be used as a credit against higher development costs that exceed the standard deviation."
10. Page C1-14, IV. Tie Breaker Criteria, Item C. Revitalization Areas:
   While we appreciate the fact the revitalization area has been simplified, the Authority has gone too far in the other direction.
   - There should be an adopted plan in place at least 6 months prior to the submission of the initial application to ensure games are not played by anyone in creating a plan at the last minute.
   - If the developer cannot work with a local government to initiate the CRP being adopted why is the public housing authority allowed to work with the local government to create a CRP? How will the Authorty even know who initiated the plan unless a sample certification letter is to be provided and signed by the City/County.
   - For a local government to commit to making specific investments in non-housing infrastructure, amenities or services beyond the proposed development these types of decisions have to be made well ahead of time, with city/county budget funds allocated for such items, and in many cases public hearings have to be held to get public input which would all need to be done well before the day initial applications are due. As previously stated, the CRP needs to be in place at least 6 months prior to an application being due to the Authority.
11. Page C1-15, V. Evaluation of Rehabilitation Applications, Item B:
   The Authority has proposed to eliminate providing a Physical Needs Assessment (PNA) until 6 months after an award of credits is received. With that being the case how can the Authority award points in Section B when there is no PNA report for staff to review in order to make their determination?

APPENDIX C-2 – TAX EXEMPT BONDS

1. The Authority needs to have a new construction set-aside, a rehabilitation set-aside, and a Public Housing Authority Set-aside. PHA's have the ability to use vouchers and fair market rents which gives them a significant financial advantage over other developments. Also, PHA's are typically very "site specific" to properties they already own and are limited to the points other developments can claim. There should be criteria in the rehabilitation set-aside to ensure that acquisition/rehabilitation costs are reasonable. If the cost to rehabilitate units is more than the cost to build new units then the rehabilitation development should be disqualified.
2. Page C2-3, #8 Application and Award Limitation:
   We suggest increasing the per county award to two (2) awards per county. There are limited markets in SC as to where a bond development can actually work well and for new construction developments with up to 200 units those areas are the high population and income counties of the state. We realize the funding for bonds is limited, as are the 9% tax credits, so if you want to make the most impact for housing with bond funds the funds need to be geared to the more populated counties of the state. There is already a limit of one (1) award per county in the Group A 9% tax credit funding cycle so to help create more affordable rental

units in the urban areas we encourage the Authority to award up to two (2) awards per county in the bond program.

3. <u>Page C2-4, C. Other Requirements, Ranking:</u>
   a) The Authority needs to add point criteria to the bond program and not leave the award ranking based solely on the state tax credit ranking criteria.
      i. Add distance to primary services such as a grocery store, shopping, pharmacy, retail and healthcare. Need to make the distance to these services have a larger range than the 9% deals because land for larger deals is hard to find close to all amenities.
      ii. Add points for jobs.
      iii. Have negative points for developments that do not fall within one standard deviation per unit cost at the average of the majority of the developments submitted. Negative points would apply to those developments outside one standard deviation.
   b) The state tax credit scoring criteria needs to be changed as it is set up to be a race to the bottom. Having a limit on the number of higher bedroom unit counts helps stop this to some degree; however, a better scoring criterion to consider would be "State resources per total development cost".
4. <u>Page C2-4, Tiebreakers:</u>
   Eliminate tie breaker criteria. If the above suggestions are taken then tie breakers should be irrelevant.

APPENDIX C-3- STATE LIHTC

1. <u>Page C3- 3, III. Ranking:</u>
   a) The state tax credit scoring criteria needs to be changed as it is set up to be a race to the bottom. Having a limit on the number of higher bedroom unit counts helps stop this to some degree; however, a better scoring criterion to consider would be "State resources per total development cost".
2. <u>Page C3-4, Tie breakers:</u>
   Eliminate tie breaker criteria. If the above suggestions are taken then tie breakers should be irrelevant.

APPENDIX E – LIHTC MANUAL:

<u>Page E-6, D. Compliance Monitoring Fees:</u>

The second bullet states "due each year through extended use period to include the decontrol period". We suggest the Authority clarify that the decontrol period is related only to those developments going through a Qualified Contract process. If you added "of a Qualified Contract" to the end of the sentence the wording is clear as to what is being referenced as there is not a decontrol period with the regular extended use period. It should also be made clear that only the affordable units are subject to compliance monitoring fees during the decontrol period as the Authority has no oversight authority or control over units that have been converted to market rate units.