2025 DRAFT #2 QAP Comments – Connelly Development

QAP:

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%) Since the Authority appears to be removing the application page where it required detail of the ineligible basis there is no way to figure out now what a developer is claiming as ineligible basis or be able to figure out a ratio.
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. **Currently the Draft QAP states the Authority will create standard deviation for all applications submitted and any outside the standard will have to explain costs. Credits will be decreased or the application disqualified if the developer can't explain costs. We believe this is not an adequate measure to help control costs. All developers will be able to come up with an excuse or reason that their costs are higher than others regardless if it is accurate or not and the Authority does not have the background data to be able to challenge the developer.**

Threshold Participation Criteria, P. Financial Underwriting, #14 Minimum Hard Cost Requirement, Page 19:

Applications must reflect a minimum hard cost ratio of not less than sixty-five (65%) of total development costs at full application and PIS application unless specifically waived at initial application. **Why change the criteria and allow a waiver? The criteria should be a requirement from start to finish or not have it as a requirement at all.**

Threshold Participation Criteria, P. Financial Underwriting, #18 Calculation of the Tax Credits, Page 21:

Need to add **Total Development Costs** at the top of this formula so that the calculation makes sense.

<u>APPENDIX C-1 - 9% TAX CREDITS</u>

1. <u>Page C1-5, B. Set-Asides:</u>
   Public Housing Authorities should not have their own set aside in the 9% program. We previously 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. **At a minimum, please clarify that this set-aside is limited to one award statewide.**
2. <u>Page C1-11, E. Other Types of Tax Credits:</u>
   The Authority deleted the entire section of Other Types of Tax Credits which we request be reinstated in the Final QAP, other than the 45L/45E Credits (which every application is eligible for based on the Authority's mandatory design criteria). The ability to obtain these other credits for a development is not a given and has to be planned for and worked on. In addition, many of the local governments have encouraged us to look at areas within their jurisdiction whereby these other credits can be obtained as it helps the localities with their revitalization efforts in tearing down old abandoned and dilapidated structures which would otherwise remain in place as most of the municipalities don't have funding to purchase these properties and tear them down. By coupling these credits with the LIHTC to revitalize and restore helps give the program a better reputation in communities.
3. <u>Page C1-12, H. Project-Based Rent Assistance:</u>
   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? The 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 public housing authorities have the ability to provide project-based vouchers for the counties they administer the Section 8 voucher program in? If not, those counties are disadvantaged by this criterion. We suggest this point criteria be removed. **Since our last comment on this criterion, we have talked with several housing authorities and they do not and will not provide PBV to any of the counties they serve. They even asked us why the Authority put the criteria in the QAP when it can't be provided to all counties putting many counties at a point disadvantage. We request that this point criteria be removed as the Authority is putting many counties that need affordable housing at a point disadvantage by leaving this criterion in place.**
4. <u>Page C1-13, I. Supportive Housing</u>: **COMMENTS RESUBMITTED since no changes were made from previous QAPs:**
   - 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.

5. Page C1-13-14, J. Development Costs: - **DEVELOPMENT COST SECTION DELETED FROM DRAFT #1 TO DRAFT #2 QAP**

   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 1.0 or less than or equal to 2.0 or ***4*** points for a standard deviation greater than 2.0. 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." **It is IMPORTANT for developers to understand at the time of application submission they will lose points if their costs are too high or low based on their competition. By not defining on the front end what the expectation of average costs are the Authority will have a much harder time cutting credits or disqualifying applications as every developer will have a reason that their development "just costs more".**

APPENDIX C-2 – TAX EXEMPT BONDS - COMENTS RESBUMITTED

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. Page C2-4, C. Other Requirements, Ranking:
   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. Page C2-4, Tiebreakers:
   Eliminate tie breaker criteria. If the above suggestions are taken then tie breakers should be irrelevant.

APPENDIX C-3- STATE LIHTC - COMMENTS RESUBMITTED

1. Page C3- 3, III. Ranking:
   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. Page C3-4, Tie breakers:
   Eliminate tie breaker criteria. If the above suggestions are taken then tie breakers should be irrelevant.

APPENDIX E – LIHTC MANUAL: - COMMENTS ON ITEMS ADDED TO DRAFT #2 QAP

Page E-3, B. Progress Deadlines- Developments Receiving 9% federal tax credits:

The Authority has added that applicants failing to close on a variety of items within 12 months will be ineligible to apply in any Authority funding cycle the following year. While many of these items are typically obtainable within the 12- month timeframe there are instances in which city/county localities, SCDOT, SCDHEC, etc. take longer than anticipated to issue permits which is beyond the applicant's control. Not having the applicable permits delays the ability to close the construction loan and provide the various recorded documents the Authority lists as being due at the 12-month benchmark. **We suggest the Authority use the IRS benchmarks not being met as the penalty for not being able to participate in the next year's funding cycle which would be (1) not meeting the 10% test within 12 months of the Reservation date and (2) not placing the development in service within the 24-month IRS timeframe and need to roll credits to the following year. When you put an applicant on a list of not being able to participate for a year this goes beyond just not being able to participate in SC but rolls to other states the applicant may be working in as well. This type of penalty threatens the applicant's business viability and should therefore be tied to IRS benchmarks not a list of deliverables that if not provided on time would prevent the development from meeting the IRS mandated benchmarks.**

Page E-3, B Progress Deadlines- Developments Receiving Bond Ceiling Allocations:

Not providing a timeline doesn't allow developers a chance to make comments on a proposed bond timeline. If a timeline is not to be provided as part of the QAP process then we request the Authority

provide a draft timeline, once created, for developers and their bond team to review and comment on, as bond transactions are complicated and adding Authority mandated benchmarks that may not be achievable is not in anyone's best interest, especially since the applicant would not be eligible to participate in any Authority programs the following funding cycle if the Authority mandated benchmarks are not met.