DGA RESIDENTIAL | [redacted]

DGA Residential LLC
[redacted]

SC Housing
[redacted]

RE: 2025 Draft QAP Comments

Thank you for the opportunity to submit comments on the 2025 Draft QAP. We appreciate the work that SC Housing's staff has put into the draft. Several changes are positive. Positive revisions include lowering the maximum amount of credits for 9% awards and limiting new construction awards to one award per county. These revisions will facilitate funding more developments and development will be more evenly distributed across the state.

Below are our comments and questions:

QAP, Section P (Financial Underwriting):

- 2. Reserve Requirements
    - A) Postponing capital contributions increases pricing from tax credit investors. We have several deals where capital contributions to fund reserves are postponed until 8609s are delivered to the investor. This delay in funding facilitates better equity pricing and more financially stable deal. Would SC Housing consider waivers or amending the requirement to default the timing to meet individual tax credit investor's requirements?
    - B) We would request the ability to show pre-funded Replacement Reserves for rehab projects and have the agency consider them as part of TDC. These are not non-basis costs. Many rehabs have existing HUD controlled Replacement Reserves which have to stay with the property. HUD also requires owners to maintain a minimum balance of $1,000/unit before you can access any Replacement Reserves. Allowing developers to pre-fund the HUD minimum balance of $1,000/unit allows the property to have a sufficient starting balance and allows the property to utilize the Replacement Reserves funded by ongoing operations more quickly if needed. We feel this would be a positive change for rehab projects if the pre-funded Replacement Reserve deposit doesn't cause the Deferred Developer Fee to exceed the SC Housing limit (currently 50%).
- 4. Deferred Developer Fee
    - We understand that SC Housing intends to ensure that projects have sufficient contingency funding and financial stability by limiting the Deferred Developer Fee to a maximum of 50%. However, increases in

operating costs (i.e. – insurance), increases in interest rates, and increases in construction costs have created an environment where developers can borrow less and have less sources to accommodate increased construction costs. We would appreciate SC Housing considering allowing a greater than 50% Deferred Developer Fee if the developer can show that the entire Deferred Developer Fee is repaid within the initial 15-year compliance period.

- 6. Operating Expenses
    - We request that there be no upper limit on the per unit per year Operating Expenses, especially on rehab projects. This negatively impacts projects with smaller unit counts. For example, a 56-unit property may have 2 full time employees with a $100,000 payroll budget. This is $1,786/unit. A 100- unit property may have the same $100,000 payroll budget but is only $1,000/unit. Rehab projects have existing expense history, and it is very hard to reduce all expenses through even the best rehab scope of work. Rehab projects cannot control how many units the developer is attempting to get awarded and this upper limit severely hinders these projects.

Appendix C1 (9% LIHTC)

- General Comment
    - There should be a limit on the number of units allowed to apply for rehab projects. We request that the limit coincide with the minimum number of units allowed to apply for 4% LIHTCs, which is 70 units. The amount of 9% credits set-aside for rehab projects is limited and allowing larger projects (80+ units) to apply will result in less properties receiving awards and less communities and residents receiving critically needed renovations.
- Section II. Application Groupings, Set-Asides and Requirements
    - G) We request SC Housing reconsider restoring the statewide basis boost. This would make more projects feasible and would help incentivize developers to develop projects outside of QCTs which would facilitate affordable housing in areas with less poverty.
- Section IV. Tie Breaker Criteria
    - B) Please clarify what years comprise the last three funding cycles. It appears that there are no 2023 9% awards. For 2025, would the last three funding cycles be 2021, 2022, and 2024 or 2022-2024?
    - C) We do not think that CCRP should apply to points or tiebreakers for rehab projects. Many smaller communities do not have CCRPs, and this will steer the awards to larger communities. CCRPs are irrelevant for rehab properties as the property is already in place and needs a rehab. The presence of a CCRP shouldn't be the determining factor in whether an existing project receives a tax credit allocation.
    - We propose that SC Housing consider some kind of needs-based tie breaker for rehab properties based on the as-is PCNA needs. Older properties have far greater physical needs to remain viable than a property

that was built 15-20 years ago. Funding rehab projects on a needs-based assessment ensures the limited 9% LIHTCs are being used for the best and highest need.

- Section V. Evaluation of Rehabilitation Applications
    - A) We request that applicants be able to claim points for BOTH eligibility to request a qualified contract currently AND having 3 years or less remaining on a federal project-based assistance contract on at least 90% of the units. Projects meeting these two qualifications will inherently be at least 45 years old as the award of federal project-based assistance contracts ended in the early 1980s. If these projects received prior LIHTCs, it likely would have been in the late 1990s or early 2000s with a very limited scope of work. These projects are at risk of losing BOTH project-based assistance AND affordability restrictions. Allowing rehab projects that meet both qualifications incentives developers to seek 9% awards to properly rehab these properties and renew the project-based assistance contracts ensuring these properties remain viable affordable properties for the next 30 years.
    - C) We appreciate incentivizing prior year applications. We request consideration to expand this to include a point for each time an applicant has submitted either a 4% or 9% application within the last 5 years and not be limited to only a tiebreaker criteria. This rewards developers who clearly have intent to rehab properties with pressing physical needs.

Appendix C2 & C3 (Tax-Exempt Bonds & State LIHTCs)

- The current scoring for both Tax-Exempt Bonds & State LIHTCs is the same. Current scoring rewards projects with larger bedroom mixes and square footages. This emphasis inadvertently hinders rehab and new construction of elderly properties. An overwhelming majority of elderly properties, especially existing elderly properties, are studio and 1-bedroom units that are generally less than 700 square feet. In the 2023 4% LIHTC/Tax Exempt Bond Round, the preliminary rankings showed the highest-ranking elderly project was 18th out of 33 applications. In the 2023 4% round, all applications for elderly projects submitted were new construction, which received a 10% adjustment to the state resource calculation and these applications for elderly projects were still non-competitive. We would request that SC Housing consider an additional scoring adjustment for applications for elderly projects similar to the USDA-designated rural areas and new construction adjustments.

We very much appreciate your consideration of our comments. We look forward to continuing our work in providing South Carolina residents with access to affordable housing.

Craig Cobb, Vice President