From: Brad Queener [mailto:brad@bradleydevelopers.com]
Sent: Wednesday, October 24, 2018 11:55 AM
To: Nicholson, Laura 6-9190
Subject: 2019 QAP/Manual Comments

Laura -

Hope all is well. Please find my comments to the QAP/Manual below.

Brad

QAP

Positive Site Characteristics (a) – Please continue to allow the inclusion of alternate sites as these business are sold/rebranded more often than one would think. A perfect example of this is the BiLO across the street from my 2017 allocation in Myrtle Beach. This grocery store was sold, temporarily closed, and then re-opened as Food Lion earlier this year. Leaving this option in really doesn't cost the Authority anything, as the back-up service would only need to be confirmed if the primary service suddenly became unavailable.

Positive Site Characteristics (a)(i) – The removal of the ½ mile distance from goods and services removes any ability to differentiate a good site from a better site from a best site. This is really the only portion of the QAP that allows for any differentiation in the applications, as the rest of the point items are either check the box, or plain common sense. Why wouldn't the Authority want to fund the best available sites? What is the purpose of removing the ability to recognize and award the superior site? Why remove the ability to differentiate? Again, this costs the Authority nothing. It has worked successfully in the past and will continue to do so in the future. Leave this as-is, it's not broke, don't try to fix it.

Detrimental Site Characteristics 2(a) - How is a site being within 500 feet of an easement containing an electrical substation worse than the carve out in 2(b) that allows for high voltage overhead power lines "as long as no portion of any building or proposed building is beneath such power lines?" A high voltage power line within 25 feet is acceptable, but a substation within 500 feet is not? Consider reducing the distance requirement.

Tax Credit Experience (a) – Eliminate requirement for K-1's. This is a labor intensive requirement that proves nothing. A developer is not going to submit a bad K-1. Unless the Authority requires the developer to provide a K-1 for every deal developed over the eight year period, it is just additional paper work.

Tax Credit Experience (b) - South Carolina based developers provide jobs to South Carolinians, who shop in South Carolina stores, eat in South Carolina restaurants, pay South Carolina taxes. Preference should be given to South Carolina **based** developers. Politically, economically, socially it's a no-brainer. Why export jobs that can be done by South Carolinians?

Targeting Characteristics (c) – "The plan must include how the owner will inform and solicit applications from prospective tenants in the market area that are **least** likely to apply…." Can you please provide some clarity on what it is you are expecting here, and what prospective tenant would be **least** likely to apply. Targeting Characteristics (a) requires (provides points for) the Applicant to inform the local PHA.

Financial Characteristics – If the Authority is concerned about costs/would like to control costs, do not increase the TDC per unit. In the Manual (comments to follow below), the Authority has capped land costs, third party costs, etc, but has increased credits per unit and the TDC per unit. It does not make sense to increase the TDC per unit, while at the same time putting artificial caps on items like land and third party costs. An overall cap on TDC per unit is a much more simplistic and effective method of controlling costs than imposing artificial limits on specific costs.

Tie Breaker Criteria –

#1 – 20 years is a very long time and none us knows what type of program will be available to rehabilitate/refinance these deals in the future. There are not enough tax credits available now to rehabilitate every deal that comes out of the program annually. This number is going to grow exponentially in the future. This seems to be a meaningless tie-breaker that doesn't add any real value to the development or tenants and will only create problems down the road for the inventory of affordable housing stock. Strike completely or move below QCT tie breaker.

#2 & #3 – With the current proposed changes to scoring (which I am hopeful will be modified), development funding will be funding will be totally based on costs. Costs should not be the determining factor in which a development is judged. This can and will unfairly penalize some areas of the State. I don't believe this has worked particularly well for our neighbors to the north.

#4 – Unless required by statute or law, the measures required to meet the criteria of this tie-breaker seem to be overly onerous.

MANUAL

Set Asides – Remove rehabilitation from the general pool. A rehabilitation deal with a 30% vacancy rate (which is something that can easily be manipulated) is focusing the Authorities resources on what has to be a problematic deal. Move to Rehabilitation Set-Aside.

Appraisals – 15(l) -- It would be interesting to understand the impetus behind such a radical proposal. This is extremely problematic on a number of levels:

If the property costs $750,000, but the Applicant is only allowed to include $500,000 on the application, how is the additional $250,000 to be financed? Deferred Developer Fee?

If the real deferral (not the underwriting deferral) exceeds 50% of the fee, is the application going to be ruled ineligible? On the cost certification, if the real deferral equals such an amount that it cannot be reasonably be repaid within statutory guidelines, this will result in a reduction of the developer fee, which will result in reduced equity, which will result in more of the developer fee being deferred. It creates a circular error.

Is the Applicant supposed to keep two sets of books?

This is a BAD idea and will likely have unintended consequences.

QCTs/DDAs – With every increasing costs, increasing interest rates and an unstable credit market, allow for the 130% boost for ALL set-asides. Nails, 2 x 4's, appraisals, etc cost the same for a new construction deal as they do for a rehabilitation deal.

Operating Reserves – The development community would love to see lower reserve requirements, however, I do not believe that our debt and equity partners will agree to such reductions. This is an industry standard. And if they require higher reserves, will the additional reserves be accounted for in the 2nd set of books?

Developer Fees – The developer fee is frequently, if not always, used as a source of financing (via a deferral). The Authority is proposing to reduce a fee that already is not being paid in full from equity and loan proceeds (due to increasing costs and interest rates and lower equity prices). Additionally, there are several costs that the Authority does not see (that increase the deferred developer fee), as they are typically not paid, nor can they be accounted for, at the time of the PIS Application. They are, for example, permanent loan closing costs and tax and insurance escrows. Developer Fees are used to pay the salaries, health care, etc of our employees as well as absorbing the dead deal costs for unsuccessful applications. The cash developer fee is typically paid out over a two-year period, and the deferral over years.

Contractor Fees – I am not sure why a related party entity should be expected to perform the same services and assume the same risks as a third party contractor for substantially less compensation. These companies are run as stand alone entities and are treated as such.

Cost Certification of Contractor –Leave at the discretion of the Authority and not as a requirement. If the Authority has an issue with an application, insure your ability thru language within the QAP and Manual to require whatever verification you may need. This is onerous for those of us who are doing it right.

Maximum Soft Cost Requirements –I would be surprised if any Applicant owns its own architect firm, engineering firm, environmental firm etc. These are unrelated third party contracts negotiated at arms length (capitalism). How/why would an Applicant want to overpay for these costs. Also, we are required to submit a market study, appraisal and environmental report at the time of application. During the underwriting of the deal by the lender/syndicator a second market study required, a new appraisal is required (to determine the value of the apartment community on the income approach, validate rent, expenses and confirm loan to value) and at minimum an update to the environmental report (but more than likely a new report given the passage of time). Are these additional costs to be accounted for on the 2^{nd} set of books? Or is the Applicant expected to just eat these costs?

<u>Summary - Manual</u>

The Authority has two global measures to control the costs of developments: the tax credit award caps and the TDC per unit caps. It is cumbersome and unnecessary to try and dictate how these dollars are spent. It also creates an array of accounting and transparency issues that are readily apparent, and I am sure will no doubt create more that are not.

Pick a number and enforce it. Capitalism will take care of the rest.