

**2013 RECOMMENDATIONS
REVISED IN RESPONSE TO QAP DRAFT PUBLISHED 10-17-12**

Following the release of the *2013 Draft QAP* and *Draft Tax Credit Manual*, the Affordable Housing Coalition of South Carolina's LIHTC QAP committee met to review areas of concern for the 2013 Tax Credit Cycle. As an addendum to our initial Qualified Allocation Plan Recommendations, the Affordable Housing Coalition of South Carolina (AHC) would like to submit the following items for consideration in the final 2013 QAP process:

- 1. Market Studies** - While in previous years, the Coalition has supported market studies commissioned by developers, we now recognize the merit of having market studies commissioned by SCSHFDA to ensure the uniformity of methodology and removing the possibility of developers influencing the outcome of the studies. In addition, we recommend that all studies be posted on the SCSHFDA web site at the conclusion of the tax credit competition.

Status: Not adopted

Revised Recommendation: The AHC still feels strongly that market studies should be commissioned by the agency. Part of the driving force behind determining the feasibility of a development is the market and market study. By having the market studies commissioned the Authority can group market studies to compare transactions in geographic locations and make the portion of the application grading process dealing with Market Advantage as non-biased as possible.

- 2. Market Advantage** - In an environment of federal cuts and diminishing resources for affordable housing, developers are challenged to structure deals that not only score well but are strong in the long term. Currently, to achieve the maximum Market Advantage points, developers are put in the position of lowering the rents below the point of sound financial feasibility. To counteract this, the Coalition recommends that Market Advantage be capped at 20%.

Status: QAP currently has Market Advantage as a threshold item at a minimum of 10%. QAP requires developments to maintain a minimum of 10% market advantage from the placed in service date for 3 years. The manual (page 29) requires that rent increases must have authority approval.

Revised Recommendation: Eliminate tie breaker #2 and use market advantage instead and take out to two decimal places. Remove the requirement of having to obtain agency approval

for rent increases after one year unless they do not meet the 10% market advantage restriction with the proposed rent increase. Requiring rents to remain stagnant for 3 years does not meet underwriting standards for banks and equity partners.

3. **Set Asides** – The Coalition recommends that rehab set-aside funds be increased to \$1.8 million, and, in order to maintain the quality of the older projects in its tax credit portfolio, provide additional scoring points to applications for the rehab of existing tax credit projects that had been placed in service for a period of 10 years or more.

Status: The Rehab set-aside is currently \$1.5 million, RHS is \$800,000, and Nonprofit is \$1.5 million, General set-aside is \$3,350,000 and underserved counties is \$3,350,000.

Revised Recommendation: Increase the General set aside to \$4,500,000 and decrease the underserved counties to \$2,200,000. Most of the developments funded last year were in underserved (rural) counties. The population in the general set aside counties is already larger and the population is increasing while the underserved counties are experiencing neutral or negative growth.

In addition, the Coalition recommends the creation of a rural set aside and limit application of the 130% basis boost to QCT's, DDA's, and rural areas, and allow a 115% basis boost in metro and non QCT and non DDA areas.

Status: Manual proposes basis boost is 120% statewide.

Recommendation: QCT's and federally designated DDA's should receive 130% basis boost. The remainder of the state should achieve a 120% basis boost. Federally designated QCT's and DDA's are areas that have been targeted because of either high land cost or a disproportionate number of low income persons in an area and thus need additional funds.

4. **Tax Credit Cap-** the Coalition recommends that tax credits be capped at \$15,000 per unit new construction and rehab or \$20,000 per unit for adaptive reuse, duplex or single family projects or developments.

Status: Credits are proposed to be capped per bedroom size.

Recommendation: The AHC agrees with the proposed caps. However we feel that total development cost for new construction should be capped at \$150,000 per unit instead of \$175,000 per unit.

5. **Tie Breakers** – The Coalition recommends that tie breakers be limited to the following in order of importance:

1. Lowest allocation of tax credit dollars per unit that meet threshold requirements;
2. Developers that have had at least one project in the SC LIHTC program in the last 7 years; and,
3. Assign point scores to all market studies and utilize those scores as the final tie breaker criterion.

Status: Items 1 & 2 above were accepted, item 3 was not accepted.

Recommendation: Eliminate proposed tie breaker “Development Affordability” from the current draft QAP and use Market Advantage instead so that deals compete in their markets and not rural against urban.

- 6. Community Revitalization Development Plans** – Because of confusion as to whether or not local governments have established Community Revitalization Development Plans and whether or not specific sites are included in plan areas, the Coalition recommends adoption of the following definition of the term:

Community Revitalization Development Plan: A Community Revitalization Development Plan (CRDP) is a governmentally adopted reuse, renewal, redevelopment, revitalization, or conservation plan specifically targeting an officially established and documented area with affordable housing development or preservation as its primary component. A CRDP must be created by a county or municipal government by statute, resolution or ordinance adopted no later than November 15, 2012. A HUD approved consolidated plan or local government master or comprehensive plan not adopted by legislative action as described above is not a CRDP.

The Coalition further recommends that a copy of the statute, resolution or ordinance be provided with the application in order to receive one point for a project being located in a CRDP zone.

Status: The QAP assigns a 2 point preference for a CRDP.

Recommendation: Reduce to a 1 point preference and extend the deadline to the application submission date to allow municipalities time to receive community input and put their CRDP plans in place.

- 7. Optional Development Design Criteria** - The Coalition recommends that optional development design criteria be amended as follows:

- a. Remove a rental unit reserved for a security officer because the unit would have to be reserved/ designated for a security officer and could not be “floating”. Also the cost of this unit would have to be either removed from eligible basis or provided “rent free” to the security officer which could be a burden on the property. This requirement would be difficult for management and could become a compliance issue for the property in future years.
- b. Remove walking trails because not all sites are conducive or large enough to be able to accommodate the defined 1,400 lineal foot walking trail that must also meet ADA requirements. In addition, for safety purposes these trails should be lighted adding more maintenance and operations expense to the property with minimal gain. Typically residents particularly in townhouse or single family developments don’t want foot traffic behind their units especially at night for security purposes. As the QAP is pushing developments to be fewer units on

smaller sites the requirement for a 1,400 lineal foot walking trail is impossible to locate on the site.

- c. Remove perimeter fencing around all sides except main entrance because a lot of properties have multiple entrances and thus would have difficulty complying with the exact language. Other issues involved with this include municipalities that require a second entrance and municipalities that do allow fenced properties.

Status: The QAP has been revised so that developers can choose the items to tailor their developments to meet the requirements for the area and not have to select all items of the design criteria to be competitive.

Recommendation: The Coalition concurs with the amendments in this section.

- 8. Development Size** – The Coalition recommends the urban projects be capped at 64 units and rural projects be capped at 48 units, with the exception of rehab or adaptive reuse projects.

Status: Currently the QAP requires that developments be limited to 48 units to receive maximum points.

Recommendation: Use the following scale for development size: Developments up to 56 units = 3 points, Developments 57 units to 64 units = 2 points, Developments with greater than 65 units = 1 point. Reducing the number of units in a development continues to raise the cost per unit of developments. Most markets have a high demand that will certainly utilize all the units. Smaller developments will further penalize urban areas because of the land cost per unit.

- 9. Proximity to Services** - In order to lessen the likelihood of projects having tied scores under the QAP, the Coalition recommends that scoring for Site Characteristics and Market Study criteria be adopted on a sliding scale similar to the attached table and that a standardized mapping software be utilized to determine distance.

Status: Revisions made to the QAP were not consistent with AHC previous recommendations and will not make a significant difference in scoring.

Recommendation: While the AHC feels this is a criterion that could help differentiate the developments in the competition we also understand that the current revisions proposed by the QAP and other recommendations made by the AHC will also differentiate developments based on site and market issues.

ADDITIONAL CONSIDERATIONS IN LIGHT OF THE REVISED QAP:

- 10. Issue:** Page 23 of the manual allows underwriting of all developments at the full 9% tax credit.

Recommendation: *It is our understanding that federal legislation is required to extend this privilege beyond December 2013. The AHC feels that basing underwriting on federal legislation that has not passed and the likelihood that developments could not meet such a rigorous schedule to meet the existing deadline would be a huge mistake that could put developments, developers, and the Authority at risk.*

11. Issue: Financial criteria currently propose that developers must have liquidity requirements of 10% of their net worth in cash.

Recommendation: *Leave the net worth and liquidity requirement as it was in 2012 of \$3 million net worth and \$1 million liquid. This requirement is not feasible for developers of high net worth. It is not reasonable to say that a developer that has a net worth of 5 million only has to have liquidity of \$500,000 but a developer worth 50 million has to have liquidity of \$5,000,000.*

12. Issue: QAP detrimental item g; the requirement for developers to identify and provide names and locations of any hog, chicken, or turkey farms within the county where the development is proposed.

Recommendation: *Specify that developers are required to identify potential hog, chicken, or turkey farms within one mile of the development site. SHA should better define what constitutes this detrimental item. Does one hog on a farm meet this test or is it better defined as any commercial operation that raises or processes these items? There are no known lists that developers can obtain that lists small family farms or commercial operations that house or produce these items.*

13. Issue: QAP allows a cost analyst to approve developments that exceed cost standards as outlined in the QAP and to remain in the competition.

Recommendation: *The cost analyst should not be able to “override” a development that does not meet the cost containment measures.*

14. Issue: Reduced number of applications that are allowed to be submitted by a developer to 2 instead of 3.

Recommendation: *Allow developers to submit 3 applications. By limiting developers to 2 applications and only obtaining 2 awards does not allow a contingency plan or fallback position if something should go wrong with one of the developments during the application process.*

15. Issue: Discussions with Board Members; The Manual page 5 prohibits members of a development team from discussing issues during the competition round with board members or else they are eliminated from the competition.

Recommendation: *The QAP / Manual should allow for a more comprehensive appeals process that first goes to the executive committee and then if the developer is not satisfied should be able to be submitted to the board for final decision. Board members initiating conversations with developers should not be subject in any case to elimination from the competition.*