<u>Comments and Suggested Changes to the 2013 QAP</u>

October 6, 2012

The following changes and additions to the 2013 Draft QAP will make the LIHTC program much more effective in achieving North Carolina's local affordable housing and community development objectives:

Comment: Local government sponsored low income housing developments should be included with non-profits and CHDOs in tax credit set asides. Often times local governments must divert scarce resources from other projects and programs to support affordable housing developments. The following addition to the set aside provision helps make these projects more competitive with for profit proposals.

II SET ASIDES, AWARD LIMITATIONS AND COUNTY DESIGNATIONS

"D. NONPROFIT AND CHDO SET-ASIDES AND LIMITS

1. SET-ASIDES
If necessary, the Agency will adjust the awards under the Plan to ensure that the overall allocation results infifteen percent (15%) of the state's federal tax credit ceiling being awarded to projects involving tax exempt organizations (nonprofits) or local government sponsored projects, and fifteen percent (15%) of the Agency's HOME funds being awarded to projects involving Community Housing Development Organizations certified by the Agency (CHDOs). Specifically, tax credits that would have been awarded to the lowest ranking project(s) that do(es) not fall into one of these categories will be awarded to the next highest ranking project(s) that do(es) until the overall allocation(s) reach(es) the necessary percentage(s). The Agency may make such adjustment(s) in any set-aside.
(a) Nonprofit Set-Aside
In order to qualify as a nonprofit application, the proposed project must either:
not involve any for-profit Principals, comply with the material participation requirements of the Code, applicable federal regulations and Section VI(A)(2), or involve a *local government sponsored project*. A local government sponsored project must have the following elements: specific element of an adopted community revitalization plan; the sponsoring government must have funded at least 50% of predevelopment costs; and the sponsoring government must provide at least $100,000 funding for development costs."

Comment: The ability of local governments and nonprofits to attract and engage the services of developers with experience in using LIHTC's and Historic Tax Credits to help facilitate the adaptive reuse of important historic buildings can be challenging. An incentive to attracting developers who will have to serve as Principals of the historic property is to allow 50% of the tax credits awarded to not count against some or all of the $1,800,000 maximum annual award to any one Principal. If the project is also eligible for Community Facility Credits, the Principal's capacity to receive additional award of credits will be significantly impacted. Qualified and experienced developers may be less like to propose their services and agree to serve as a Principal of a Redevelopment or Adaptive Reuse project if they are limited on receiving additional credits because they were only charged for the full credits. The following suggested change is what was stated in the 2012 QAP.

II, E, 2. (a) Redevelopment Projects

The Agency may determine that fifty percent (50%) of the tax credits awarded to a Redevelopment Project does not count against some or all of the Principals involved for the purpose of subsection (E)(1) above. This determination will be based on the Principal's role in the project and overall development capacity. The allowance in this subsection (E)(3)(a) will apply to a maximum of one (1) project per Principal. In the event a Principal is involved in multiple Redevelopment Projects, this exemption will apply to the one with the smallest award of 9% tax credits.

Comment: Development costs are high and available development sources, including tax credits, are limited. The prudent strategy for the Agency would be to encourage developers to seek as many sources of secondary project funding as possible. If developers are successful, it may be possible to support additional developments with LIHTCs with the result being more affordable housing in North Carolina. To accomplish this, the points associated with the mortgage subsidy should be restored for all developments, metro and non-metro. The following QAP provision is recommended:

2. MORTGAGE SUBSIDIES AND LEVERAGING (MAXIMUM 10 POINTS)
(a) Eligibility:
Only loans or grants from the following sources will qualify for points under this subsection (B)(2):

(i) Choice Neighborhoods
(ii) Community Development Block Grant (CDBG) program funds, including CDBG programs for non-entitlement communities,
(iii) Federal Home Loan Bank Affordable Housing program
(iv) established local government housing development funds (see below), and
(v) RD Section 515.

Established local government housing funds may include funding from general or special funds, donation of property, or long-term lease (50 years) of government-owned property at no consideration. The appraised value of the housing site will be used to determine the value of property donations and leases. A specific resolution approving local government funding is required at the time of the final application.

Other sources of funding may qualify PROVIDED THEY ARE APPROVED IN WRITING IN ADVANCE by the Agency prior to the preliminary application deadline. (Approval of a particular source in prior years does not meet this requirement.) Applications including market rate units will be ineligible for points under this section. Adjustments to the purchase price of the land by the seller unless a local government, Agency loans, state credits and bond financing are not sources of mortgage subsidy.

The point allocation for mortgage subsidies is shown in the following table:

Subsidy funds/unit	Points assigned
$2,500	6
$5,000	8
$10,000 or greater	10

***Comment*: Having quantifiable standards for allocating points for site amenities is a good addition to the QAP. However, the current structure of the point system penalizes most redevelopment projects as defined in (A)(1)(c) in the current 2013 draft. A vast majority of redevelopment projects are located in older areas of communities where grocery stores and pharmacies are not located nearby, even though these amenities may be part of the revitalization plan. To address this discrepancy, the following separate point system for redevelopment projects added to (A)(1)(b)(ii)] that meet the QAP definition is recommended:**

Amenity Points for Redevelopment Projects					
	Driving distance in miles				
	≤1.0	≤1.5	≤2.0	≤2.5	>2.5
Grocery	18 pts	14 pts	10 pts	6 pts	0 pts
Shopping or pharmacy	9 pts	7 pts	5 pts	3 pts	0 pts

***Comment:* While the convenient access (within 2 miles) to grocery stores ,drug stores and shopping is important for the efficiency of everyday life, there are more important amenities that should receive points for their convenience of access due to their location near an affordable housing development. Some of these amenities will be different for family and elderly developments. The NCHFA should add the following to Section IV A. 1, (b) (ii) Amenities**

Applicants within one mile of the following amenities will receive an additional two bonus points for each identified amenity:

Family Apartments: public school, licensed day care, public recreation facility and/or park and doctors offices including: general practice, pediatrician or emergency care hospital.

Elderly Apartments: community senior center, meals on wheels site, community recreation center that offers senior programs and activities, doctor offices including: general practice, doctors specializing in diseases common to seniors or emergency care hospitals.

***Comment*: The amount of credits requested per unit has become more than a tie breaker, it is now a deal maker as the Agency is using it to help determine which projects to fund based on more predictable site scoring resulting in more sites scoring the maximum points. In order for credits per unit to be fairly applied to both new**

construction projects, rehabilitation projects or the adaptive reuse of historic buildings the NCHFA should only count the LIHTC Credits per unit requested. By including in the federal credits per unit, Community Facility Credits and Historic Tax Credits, the Agency is placing projects submitted for rehabilitation or adaptive reuse at a competitive disadvantage even if they had a perfect score.

Please change: IV .F.6 Tiebreaker Criteria First Tiebreaker to read, "The project requesting the least amount of LIHTC's per unit, exclusive of any credits resulting from community facilities based on the Agency's equity needs analysis"

Comment: According to Donovan Rypkema, "...(community) development without a historic preservation component is not sustainable." Preserving historic buildings helps make communities more sustainable, but more important, adaptive reuse of historic buildings for residences can create very high quality living environments for the residents. LIHTC should support this objective by adding buildings on the NC Study List or listed on the National Register to Chart B that allows higher per unit development costs before points are deducted.

Please add to Section IV (C)(1):
(f) buildings on the NC Study List or listed on the National Register.

Thank you of your consideration of these suggested changes to the 2013 QAP

Scott Redinger and Bill Farris, October 6, 2012