

Wilbourne, Kim 6-9083

From: Public Affairs [REDACTED]
Sent: Thursday, August 24, 2023 4:30 PM
To: Davis, Julie 6-8117; Wilbourne, Kim 6-9083
Cc: Andersen, Nick; Reinhardt, Shaun; Archer, Katessa; Duckett, Khayree
Subject: [External] Draft 2024 QAP Comments

August 23, 2023

Julie Davis
Multifamily Development Director
South Carolina Housing Finance & Development Authority
300-C Outlet Pointe Boulevard
Columbia, SC 29210

Dear Ms. Davis,

Thank you for the opportunity to provide written comments on SC Housing's Draft 2024 Qualified Allocation Plan. Dominion also appreciates SC Housing's recent outreach efforts through the convening of a developer roundtable and public hearing. On behalf of Dominion, I respectfully offer the following comments for staff consideration in the drafting of the 2024 QAP.

Award Limitation

SC Housing did not have a funding round in 2023 for bond financed developments and changed the rules relating to the use of their state and federal resources to produce affordable housing. All the while, the development community established a robust pipeline of affordable housing communities that have been in place since 2020 and 2021 when the state tax credit was first enacted. In addition to being shovel ready, these developments are likely to be less costly than future development opportunities, tying down the land through extensions or land banking, or abandoning the projects altogether. *Dominium requests that SC Housing more clearly define "Development Team" within its award limitations per funding cycle and increase the limitation to three (3) applications per cycle.*

Reserve Requirements

Dominium supports SC Housing's efforts to prevent potential operating deficits from affecting the operational stability of affordable developments and agree that a minimum of 6 months of operating reserve should provide a sufficient guarantee for all parties to a transaction. However, Dominion believes that operating reserves below the minimum of 6 months, if approved by investor documents, should not require approval by the SC Housing. Alternatively, a minimum of 3 months of projected operating expenses, must-pay debt service, and authority minimum per-unit replacement reserves would allow properties to maximize their developer fee proceeds which subsequently has the effect of reducing the amount by which developers can limit their request for state tax credits. It would additionally align the QAP with NCSHA's *Recommended Practices in Housing Credit Administration* which states, "Allocating Agencies may accept developer guarantees in lieu of operating reserves, taking into account the developer's demonstrated financial capacity and liquidity, its track record, and other guarantees it has outstanding." *Dominium therefore urges SC Housing, like our financial partners, to provide a pathway for waivers to reserve requirements within the QAP.*

Progress Inspections

The draft Manual states that "The 100% inspection must be completed, and approval obtained from the Authority prior to allowing residents to occupy the units." While we appreciate that the inspection ensures compliance with housing standards, the 100% inspection requirement has many downsides. If residents can occupy a building that has received a

certificate of occupancy while other buildings are in progress, allows these residents to immediately realize the rent savings provided by affordable housing, enables a quicker lease-up of the apartment community, and ensures maximizing project financing. An expedited lease-up allows for earlier paydown of construction loans, which in turn could reduce state tax credits required to fill gaps and means the earliest possible delivery of all tax credits to our investors. *Dominium encourages SC Housing to remove the 100% inspection requirement in the draft Manual.*

Rent Control

Previous experiences with affordable housing, namely public housing and project-based Section 8, demonstrated the perils of rent levels that did not move with the economy. Those housing developments became dilapidated, provided poor resident experiences, and were rarely welcomed into communities, especially communities that otherwise provide strong opportunities for residents.

SC Housing's rules limiting rent increases beyond 5% risks repeating these mistakes. The primary driver of rent increases is the annual change of income limits, which are tied to economic conditions, and the rent control within the draft QAP denies properties of federally approved cash-flow at a time when expenses for housing providers are increasing more rapidly than inflation. *Dominium requests SC Housing dismiss the changes in the draft Manual and revert rent increase language to that found in the 2023 Manual.*

Bond Efficiency

Currently, SFAA allocates bonds to the most "efficient" affordable housing, utilizing an efficiency metric which rewards developments which use the fewest amount of state resources per heated residential square foot, per bedroom, per dollar of total project costs, and per potential tenant. The efficiency metric includes the sum of the tax-exempt bond allocation and state LIHTC allocation in the "state resources" numerator. Bond allocation is much larger than the state LIHTC allocation for bond financed developments, giving it a much larger impact on which developments perform well against the metric even though, unlike the state LIHTC, the bond allocation is not a direct cost or budget impact to the state. As an alternative, *Dominium suggests that SC Housing and SFAA establish a "bond efficiency" cap where each development may not exceed 55 percent of the reasonably expected aggregate basis of the project.*

Utility Allowance

The National Council of State Housing Agencies, in their *Recommended Practices in Housing Credit Administration*, encourages HFA's to "[p]ermit Housing Credit developments to select from all utility allowance options available under IRS regulation" so that "utility allowances that accurately reflect anticipated utility consumption."

Contrary to those recommended practices, SC Housing does not currently permit use of energy consumption models (ECMs) for utility allowance schedules even though they would be developed by a third-party professional approved by SC Housing, documentation of the ECM would be provided to SC Housing, and SC Housing would retain the ability to disapprove the ECM and reevaluate the reasonableness of the consumption data on a year-by-year basis.

While we understand SC Housing's reservations that an ECM methodology does not provide insight into "wasteful consumption", and thus is not a guarantee that the average consumption is representative for a specific household, SC Housing could establish an approach in which consumption data must be obtained every year and require allowances to be recalculated annually. *Dominium would gladly submit to such examinations.*

In contrast, the current allowed utility allowance schedules provide no immunity to residents from "wasteful" overconsumption in individually metered households and the allowed methods come at the expense of scarce state resources. Our team has conducted a preliminary analysis utilizing our experience across our 38,000-unit portfolio and determined that prohibiting the use of ECMs at a development in South Carolina would mean a failure to leverage an additional \$3.6M in debt on our first mortgage, and further cause applicants for 4% bond developments to have a difficult time in limiting their state credit request over the term of the credits.


The absence of these mortgage proceeds, accessed after stabilization and conversion of the property, mean that the sources necessary to finance projects will instead rely on federal and state housing tax credits. Conversely, permitting ECMs would mean fewer federal credits and \$6M returned to the South Carolina Treasury. *For these reasons, Dominion insists that SC Housing should permit energy consumption models for use in utility allowance schedules in its 2024 QAP.*

I appreciate your consideration of our comments and look forward to working with you to create quality affordable housing opportunities for the citizens of South Carolina. If you have any questions or would like to discuss any of these items further, please do not hesitate to contact Khayree Duckett at [REDACTED] or via email at [REDACTED].

Sincerely,

Nick Andersen
Senior Vice President & Regional Development Leader
Dominium

Public Affairs

Development
DOMINIUM
2905 Northwest Blvd Suite 150 | Plymouth, MN 55441
Phone [REDACTED]
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