June 28, 2024

Marni Holloway
South Carolina State Housing Finance and Development Authority (SC Housing)
300-C Outlet Pointe Boulevard
Columbia, SC 29210

Dear Ms. Holloway:
Thank you for the opportunity to contribute this feedback on South Carolina State Housing Finance and Development Authority's (SC Housing) forthcoming 2025 Qualified Allocation Plan. Lincoln Avenue Communities is a mission-driven affordable housing developer currently active in twenty-seven states. In South Carolina, we focus on developing ground-up new construction affordable housing and preserving existing affordable housing using either 9 percent LIHTCs or 4 percent LIHTCs and tax-exempt bonds (TEBs).

We appreciate several changes that SC Housing included in its 2024 QAP updates including the removal of language that excluded developer fee from acquisition basis, the removal of J (2)(3) (pg. 9) as well as the exclusion of insurance in the annual operating expensive for financial underwriting. We believe these changes will be impactful in expanding production and preservation opportunities in South Carolina.

(P)(2)(a) Reserve Requirements

QAP pg. 11-12
Recommendation: To provide developers with more working capital flexibility, we urge SC Housing to consider amending its operating deficit reserve policy to allow a surety bond as an alternative to a funded operating reserve.

Such a bond should meet stringent requirements including being backed by a S&P A rated / AM Best Rated A++ XV Surety Company and be written in a way where it is "as good as cash" so that a syndicator/investor can request to have the reserve funded at any given time for any given reason. In effect, developers would still need to have the ability and balance sheet in place to fund the reserve at any time during the compliance period but would have the flexibility to invest funds in in higher yielding accounts such as certificates of deposit, treasuries, or other higher yielding investments. We note that housing finance agencies in Minnesota, Iowa, North Dakota, and Montana all specifically reference in their QAPs and related documents that a bond is an acceptable alternative to cash in funding operating reserves. Additionally, Mississippi, Iowa and Oklahoma specifically accept Letters of Credit as an acceptable alternative to cash in funding operating reserves.

(III)(B) & (III)(E) Set-Aside Size Requirements & Max LIHTCs Per Unit

Appendix C1 pg. 5
Recommendation: Reduce maximum unit count and per project allocation ceiling for 9% LIHTC Set-Asides.

To help create more project variety within South Carolina and produce more affordable housing properties we suggest that SC Housing reduce the minimum unit count requirements from the current 100 units to 72 units. While we appreciate that larger projects will benefit from economies of scale, we

believe that more communities will benefit from affordable housing if the per project unit cap is reduced modestly. Along the same lines, while we appreciate SC Housing's generous per project limitation of $2.5m in annual allocation of LIHCs; we believe that more 9% LIHTC deals can be financed and increase the overall availability of affordable housing if the per project allocation is decreased to $2m or $1.75m.

(A)(2) Distance to Amenities Points – Proximity To Jobs

Appendix C1 pg. 9
Recommendation: Eliminate distance to amenity "jobs[1]" points.

While we understand the policy reasoning for these points categories, the implementation has surfaced several practical flaws. Given the limited number of development sites that can achieve the "job proximity" points this has led to an over concentration of applications in a small number of jurisdictions. For example, there were nine deals submitted in Sumter, SC in this round (almost 20% of the group B county submissions) because most areas in Sumter, SC receive some level of jobs points, yet only two projects can be awarded. This excludes many areas across the state from competing for affordable housing resources. It also drives up the price of land in competitive areas, raising development costs. Furthermore, this incentive does not differentiate between a project that may demonstrate greater demand in the market study that is 2.5 miles away from several jobs and a project with mediocre demand that is within the 2-mile radius. We strongly recommend eliminating this points category entirely or barring that increasing the radius to 3 miles and 5 miles respectively for Group A and Group B counties. While we think extending the radius is a less desirable option, it would allow for more sites to compete while still being proximate to jobs.

(A)(2) Distance to Amenities Points – Location in Qualified Opportunity Zones

Appendix C1 pg. 9
Recommendation: Eliminate points for being located in a Qualified Opportunity Zone (QOZ).

As SC Housing is aware, most QOZs are located in Qualified Census Tracts (QCTs) and the QAP already has incentives in place to encourage developments in QCTs (an additional point). We recognize that developing affordable housing in areas where there is other economic development activity nearby may be beneficial, but it is our experience that there are many QOZs where there is no economic development activity, or the economic development activity is not compatible with affordable housing. While we appreciate that there may be some modest additional tax benefit to the tax partnership for having a project located projects in a QOZ we do not think this warrants the preference and similar to our comment above may result in inflated land costs and higher overall development costs for many properties.

(H)Revitalization or Local Policies

Appendix C1 pg. 11
Recommendation: Weight Revitalization and Local Policies Points Equally.

We believe it is good public policy to encourage affordable housing in communities where the local government is engaged in substantive land use policies that encourage housing supply. We believe that a well-designed concerted community revitalization plan, as described in (H)(1), as well as the alternative

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[1] Up to 1o points for projects located in a one-mile radius of Group A counties and two-mile radius for Group B counties.

options described in (H)(2) are both good policies and should be weighted equally. Having more points for revitalization plans discourages smaller cities that cannot go through the process (perhaps because of lack of resources) but are still stewards for affordable housing. Furthermore, the revitalization plans assume that there are local dollars available in the area, but it is important to note that those dollars might not have an impact on the project. Additionally, we also point out that SC Housing has set up a point scoring system for resourcing local dollars in Section G- Leveraging (pg. 10), so there are still points available for local resources.

(C) Affordability

Appendix C1 pg. 9
Recommendation: Add an additional points category for affordability beyond the current county income level matrix.

We suggest to further differentiate applications, SC Housing should add an additional points category above and beyond the current county income level matrix on pg. 9. A deal that promises more targeted affordability where there is a demonstrated need and should be rewarded. For example, we suggest utilizing the market study to identify income bands areas with the greatest need in the market and providing additional points for units above and beyond the minimum set-asides that meet those needs. For example, if there are more 40% AMI residents in the area then there should be more 40% AMI units. This is a capture rate approach and will ensure that the market's greatest needs are addressed by the site.

(P)(4) Deferred Developer Fee

(QAP, pg. 13)
Recommendation: Increase amount of allowable deferred developer fee

It is critical that deferred developer fees are sized appropriately. The deferred developer fee policy, as written is the draft QAP, is generally appropriate; however, we suggest a minor tweak to allow additional flexibility, which we feel is appropriate in today's uncertain financing environment – which is to add language to allow the deferral of more than 50% of the developer fee on a waiver basis at the discretion of SC Housing staff.

(II)(8) Developer Fee Tax Exempt Bonds

(Appendix C2 pg. 3)
Recommendation: Increase amount of allowable developer fee for projects financed with 4% LIHTCs and TEBs.

We appreciate the positive improvements that SC Housing made to the Appendix C2 last year as it relates to developer fee for bond deals. That being said (and building on our earlier comment regarding developer fees for 9% LIHTC deals), we believe that the developer fee for bond deals in South Carolina is still too low and as a result, the state is missing an opportunity to finance more affordable housing. Many of South Carolina's neighboring states have higher developer fees for bond deals. To help address the rising cost and interest rate environment, we recommend that SC Housing build on the logic it has established within the current QAP we recommend that SC Housing allow bond deals to be eligible for up to a 20 percent developer fee.

Like smaller scale 9 percent developments, the risk and financing profile of these transactions warrant a different treatment. Developers take on more risk on large bond deals because of the extended pre-development period and the high proportion of foreclosable debt, for which the developer is responsible. The developer fee compensates developers for these risks. The additional eligible basis generated by the increased fee will also generate more tax credit equity which will help offset reduced debt proceed brought on by rising interest rates and help plug gaps brought on by rising construction costs. Unlike 9 percent transactions, the additional eligible basis generated by the increased fee will not deplete the overall supply of 4 percent credits, which as described above are "as of right" and uncapped.

Maximizing developer fees, within the constraints of the tax law, regulation, and reasonable underwriting, is a proven and successful method of generating additional LIHTC eligible basis, and in turn, equity proceeds which help fill project gaps and/or reduce the need to obtain state tax credits. It is proven strategy that has been deployed of late by many of SC Housing's peer HFAs in the region including Kentucky, Oklahoma, Ohio, and Tennessee, all of which have developer fees for bond transactions ranging between 20 and 25 percent. If SC Housing finds it desirable, it could also require developers to defer any fee above the current 15 percent. We would be happy to provide case studies of active transactions we are underwriting in South Carolina to illustrate the impact of this policy on project gaps if that is helpful to the Authority's decision making. We have attached a brief case study as an appendix to these comments to illustrate the potential impact of revising the 4% LIHTC developer fee methodology.

Even if SC Housing does not choose to raise developer fees above 15%, we strongly urge the Authority to reconsider its $5 million developer fee cap as well as the $30,000 per unit gap. Constraining the eligible basis associated with the cap on fees creates additional project gaps, requiring more projects to request state tax credits. An alternative SC Housing could consider would be to have a hard dollar cap on developer fee for projects requesting state tax credits but no cap for projects that do not request state tax credits. If SC Housing desires, it could also require all developer fee over the current $5 million cap and/or $30,000 per unit be deferred. Adopting a combination of these recommendations should reduce the demand for state LIHTC, allowing the authority to subsidize additional properties throughout the state.

Utility Allowance Methodologies

(QAP, Pg. 4)
Recommendation: LAC recommends that SC Housing adopt the utility allowance (UA) recommendation from the NCSHA Task Force on Recommended Practices in Housing Credit Administration and allow for an energy consumption UA model.

We encourage SC Housing to clarify the language in the QAP on pg. 4 relating to permissible utility allowances methodologies. The IRS permits developers of LIHTC properties to select from four valid utility allowance methodologies (PHA Schedule, Actual Usage and Rate Estimates provided by the local utility, HUD model Schedule Model, Energy Consumption model). SC Housing's current allowed UA options does not include the opportunity to utilize an engineered energy consumption model.

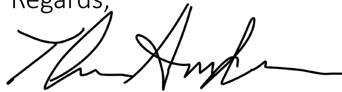
There are several important advantages to using an energy consumption UA model.
Traditional utility allowance schedules (i.e., methodologies 1-4) do not differentiate between energy-efficient and typical units or buildings with substantial investments in renewable energy – this creates "split-incentives."
Public Housing Units, which are the base dataset for the PHA UA, are typically some of the least utility efficient rental units.

UA's that reflect prospective investments in renewable energy and utility efficiency allow owners to leverage utility savings in their capital stack and overcome split-incentives.
They are particularly impactful in helping developers leverage energy efficiency and solar investments to fill project financing gaps. We have many projects around the country that leverage millions of dollars of additional permanent debt proceeds when we maximize our solar and sustainability scope of work with an engineered model. This has been an important gap filler in today's rising cost environment. Engineered Consumption Model UAs have been deployed for many years successfully around the country including in California, Colorado, Georgia, New Mexico, Utah, and other states.

Conclusion

LAC appreciates the opportunity to provide feedback to SC Housing as it begins development on its 2025 QAP. We would welcome the opportunity to discuss them with you further at your leisure and/or answer any questions you may have regarding our feedback. I can be reached directly at [redacted] or [redacted]

Regards,



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