Proposed Changes to North Carolina's QAP
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General Observations

On the whole, in 2012 there appears to be a wide distribution of funding among long term, proven North Carolina based developers and awards were broadly distributed across the state. However, the number of applications that received "perfect" site scores led to credits per unit serving as the major factor for determining winners in the non-metro competitions. Is that the best way to measure the most worthy projects? We don't think so, not when the state needs projects that serve a diversity of incomes and special populations across regions that have very different needs and site acquisition constraints. Is credits per unit a useful factor to consider in the selection process? Yes, but it shouldn't end up being such a strong deciding factor in most cases.

In all types of real estate, location is the key factor for success. A number of developers requested more predictable site scores and in 2012 this was accomplished. However, the scoring factors were hardly a comprehensive measure of site suitability.

The ratings system needs to be tweaked to provide a broader range of scoring criteria such that we have fewer tiebreakers in each competition.

While the non-profit cap was not reached in the new construction competition, the percent of credits awarded to non-profits was the lowest in the last 6 years of competition. Is the playing field realy as uneven as some developers suggested it was last year, and in the ways they suggested?

Specific Suggestions

1. Remove the Cap on Non-Profits
North Carolina is <u>the only state in the country</u> that has a specific limit on LIHTC credits that can be awarded to nonprofit developers annually. Regardless of whether or not the cap came in to play this year, the 20% cap instituted in 2012 is unreasonable and unfair treatment and should be removed. Historically, NC has maintained an even playing field in the competition for credits, demonstrated by this fact: over the five year period ending in 2011, the proportion of nonprofit and for-profit projects receiving LIHTC awards in North Carolina was the same: 29%.

In some other states, because they recognize the unique contributions of nonprofit organizations, non-profit set-aside figures represent <u>minimum</u> allocation pools, not maximum limits. Many states also provide points in the application scoring for participation by a capable nonprofit organization. NCHFA should state a policy in the QAP, as many other states have done, of recognizing the important contributions and added value that nonprofit developers can bring to development activities and increasing the capacity of nonprofit organizations due to their strong and unique history of providing housing for special, and lower income, populations, assisting with local community development efforts, and the like.

Many of the assertions suggesting a nonprofit cap made by for-profit developers in the development of the 2012 QAP were unfounded and inaccurate. For-profit developers often seek and are awarded local government funds, nonprofits do in fact pay taxes on their developments, and nonprofits spend significant resources to find and assemble deals. (For the record, the largest for-profit developers often submit far more applications than they can be awarded in a given year, accounting for significant expense for which their own costs-benefit analysis is responsible.) Nonprofits do not have the many advantages that for-profits claim, and yet contribute greatly to local communities in a variety of ways that for profits do not (they help build capacity of other nonprofits, build community partnerships, serve very low income families, and address community needs in more comprehensive ways.) The playing field should be re-leveled and the cap should be removed so that all can compete fairly and openly and may the best projects (and developers) win.

2. Change the site scoring system in the following ways:

Add more positive site selection criteria and points.
Almost 75% of the final applications this year secured a perfect site score due to the limited site scoring criteria. Our review of other states' QAPs indicates that NC has far fewer ways of gaining points for amenities. Compared to other southeastern states, NC provides the fewest opportunities to earn points based on neighborhood amenities, and other "soft" features related to projects, that can provide a real benefit for residents.

Other states employ more criteria for awarding site related points, which help provide a variety of types of projects to get funded. We suggest providing points for additional nearby amenities, including medical facilities, banks/credit unions (not ATMs), restaurants, public schools or licensed day care facilities (family sites only), libraries, a public park or greenway, a community center in a public park or YMCA/YWCA, or a senior center (for senior sites only).

Allow points to be given for right turn only when exiting site.
The QAP's clear goal of funding sites that have safe ingress and egress is commendable, but not allowing sites to get 3 site suitability points if there exists a right turn only condition when exiting the site defeats this purpose. In transportation planning, <u>a right turn only exit is required to make exiting the property safer.</u> In many situations this is a far more safe condition than an egress point that allows turning in either direction.

Allow driving distance to be counted either traveling to or from the amenity entrance.
If driving distance can be measured within the listed distances either coming or going to the site, it should be given the full number of appropriate points.

Explicitly state the site selection criteria in section IV. does not apply to rehab and adaptive reuse projects.

3. Increase Mortgage Subsidy Scoring
Funding more projects and stretching scarce tax credits is good, but mortgage subsidies can help reduce credits/unit and therefore leverage more tax credit value across the state. The state should reward leveraging as much as possible. It's too easy given the current system to maximize mortgage subsidy points. Mortgage subsidy scoring in non-metro areas should be restored and there should be more funds/unit thresholds that would include larger amounts, such as $12,000, $14,000, $16,000, $18,000 and $20,000 – and in metro areas $15,000, $25,000 and $35,000. Over time, this would encourage more leveraging of local funds, and in metro levels substantial leveraging of funds. Importantly, we'd argue that the more local government is invested, the higher likelihood a project

will be maintained as affordable long-term. This is an important way to support the goals of the LIHTC program.

4. **Revise County Award Limits**
   The general new construction regional set-asides of 17/24/36/23% are understandable given that they're based on population in each region. Given the significant need and demand for affordable housing in metro, relatively high growth counties, the limit of $2,000,000 per county is inadequate and should be increased. We recommend that you study demographic and market study data to arrive at more appropriate limits for specific metro counties.

   We support what you have done in the past when you prohibited applications in smaller non-metro counties after funding new projects in these counties.

5. **Evaluate Design Points**
   Review this category and make changes since it resulted in all but two awarded projects getting the maximum number of points. Add points for projects that commit to meeting some type of green or healthy homes building certification.

6. **Consider Consistency with Local Priorities**
   There should be a greater level consideration given to local priorities in the tax credit allocation process. The NCHFA should review the Consolidated Plans of local governments to evaluate what populations and income levels they list as priority needs and if there is some consistency about these populations, build in to the QAP points for projects that target these same populations and income levels.