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September 6, 2012

via email to: rentalhelp@nchfa.com

NC Housing Finance Agency
Attention: Rental Investment
3508 Bush Street
Raleigh, NC 27609

RE: Comments 2013 Qualified Allocation Plan

To whom it may concern:

Thank you for making time to catch up on Miller Valentine Group's (MVG) annual progress, future plans and current events surrounding the national and local tax program. As we shared in our meeting, MVG is now operating in 14 states and was recently ranked 11th for tax credit housing starts at 540 units, as well as being ranked 24th for units owned at 9,548 tax credit units. In North Carolina, MVG was awarded its first tax credit property in 1998 and just opened The Enclave in August 2012. We have maintained a regional construction office in North Carolina for many years. Including market-rate assets, MVG is operating eleven (11) properties in North Carolina. These properties are managed by our resident district manager, whose office is located in Charlotte. We have been and remain committed to doing our part to meet North Carolina's housing needs by improving the quality of life for all the residents we serve.

MVG's geographic footprint and significant success in the 9% program provides us with a unique perspective on Qualified Allocation Plans. We recognize that it is a very difficult job to balance stakeholder interests in allocating increasingly scarce resources. The staff of the NC Housing Finance Agency (NCHFA) is among the most effective we work with and your efforts are both appreciated and applauded. Please find our comments below that are intended to share our insights and ideas to improve North Carolina's 2013 QAP, from a high level perspective.

First, the 2012 QAP marked a sharp departure from a relatively subjective to a more objective site scoring mechanism. Some stakeholders will certainly applaud the precision that objective site scoring requirements appear to create. Rather, our experience across the country leads us to believe that pure objectivity may arbitrarily exclude some deals that should be awarded. Real estate is not an objective business. Subjectivity must be applied in order to come to the best conclusion. The flaw with subjectivity comes when inexperienced or untrustworthy individuals are executing the scoring system. At NCHFA, neither of those weaknesses exists. The staff and leadership at NCHFA have significant experience in evaluating real estate and the integrity of these individuals is second to none.

The most effective implementations of policy in the Section 42 program across the country come from state agencies that can implement subjectivity fairly and effectively. Keep in mind it is not as if MVG has received a significant number of awards over the past 6 years. If anything, our lack of success should lead us to speak out strongly against that previous system. However, the historical QAP policy and implementation was one of the best in the entire country. It should be reinstated because the results were the best results that could be created for residents in the State of North Carolina. There is no question that the best results will be created through subjectively evaluating sites as long as the evaluators are qualified and maintain that high degree of integrity. Throwing away something that that we feel was a great success does not make sense to MVG. We plead with you to return to the previous system.

In no particular order, please find a few ideas below that MVG offers to improve 2013’s QAP.

- Restore the site selection subjectivity found in the 2011 QAP
- Remove credits/unit as a key tiebreak. Developers may be economically encouraged to create excessive smaller 1br units, rather than a focus on matching the mix to the population to be served. MVG believes that the points awarded for cost already satisfy the cost restraint goal.
- Exclude smaller cities located within Metro Counties from the “soft funds” requirement such as in Charlotte, Raleigh, Greensboro, etc…
    - Example 1: MVG identified a strong site in Weaverville just north of Asheville. Based on a conversation with a local official, the town’s inability to ever attract an award is because they simply can’t afford to make a financial commitment. Many times small towns around Charlotte, Raleigh, or Ashville are essentially bedroom communities to the larger Metro, yet the larger Metro isn’t able to fund these deals, creating an excessive burden on small tax bases with their own priorities that must take precedence over affordable housing.
    - Example 2: MVG identified a strong site in Mountain Island north of Charlotte, but the site was out of the Metro and City limits, making subsidy an extremely challenging prospect.
- Remove points given for a developer’s principal office in North Carolina as a scoring item or do the following:

    - Keep the points for having a principal office in North Carolina, but also give equal points for very experienced out of state developers. For example if an experienced developer produces appropriate evidence of 15 deals in the last 5 years, enough points to offset a foreign principal office should be awarded. Promoting and maintaining a quality pool of developers, which our suggestion supports, should be an agency goal. This policy improves competition, product diversity and best practices; therefore, the program's managerial and economic efficacy and efficiency is improved and over time. Over say ten years, MVG feels that restrictions on out-of-state competitors will result in fewer units produced of lessor quality and at higher costs. This outcome may be avoided by promoting healthy competition.

- MVG suggests a similar concept as above for the general contractor points associated with a principal office in NC. The argument for "protectionism", where locals firms are insulated from the forces of market competition, is hard to make logically. Protectionism comes at the expense of the programmatic outcome your agency seeks, in our opinion. Moreover, few if any general contractors self-perform projects, from a labor perspective. Most are "paper contractors" relying extensively on local labor and material resources. In MVG's case, we hire, supply and project manage locally. But even in the general case, any contractor would likely spend the money locally, which negates an argument supporting protectionism. MVG requests that this principal office aspect of the 2012 QAP be deleted.
- MVG suggests that the QAP contain a waiver process that will inject a measure of objectivity into the site score for unique site physical or location attributes, for example:
    - For specific attributers such as too close a proximity to power lines, railroad, jail or prison, etc., the QAP could allow a pre-application process wherein the developer presents the issue, along with mitigating circumstances or physical procedures, such as noise mitigation for example in accordance with HUD standards, so that the matter may be resolved in terms of the point impact to score. As another example, a power line within the 2013 QAP's proximity requirement could be buffered so as to mitigate/ negate the point loss.
    - Notwithstanding the discussion above, MVG feels that the 2013 QAP should materially reduce the set offs from rail and power lines to 100 feet.

- Change the construction scoring to allow waivers from additional costs over the unit caps. Waivers should demonstrate that special or unique site, building or local governmental program goals drove the higher costs and that these additional costs are being offset by additional soft funds. Public-private partnerships should be emphasized, because often achieving more general local governmental goals supported by local subsidy require particular levels of investment, which may not jive with the particular requirements of NC's LIHTC program. MVG believes that unit cost limits should not impede public-private partnering where local governments are willing to invest the amount over the cap to serve the unique needs of their citizens.

Thank you for the opportunity to share some general thoughts and ideas about how to improve the 2013 QAP. We look forward to the hearings and further discussion about next year's process.

Yours truly,

Brian McGeady
Director of Multi-Family Development