Alan and Matt,

First, I think you and the team have done a nice job on this QAP. The changes made are good ones and make sense in most areas. I sense this is heavily weighted to preservation and understand the rationale there. New construction is currently much more difficult in this macroeconomic environment, especially in the age-restricted or age 55+ developments. There are a some complicating factors in this QAP draft that could be shifted to make these projects more viable. (Note, this would be both 55+ apartments and assisted living.)

**Schedule D-Section B(b) – Bond percentage cap**

* While I understand the intention behind the range of bond allocation between 50% and 55%, the reality is much harder than you may expect. It is the law of unintentional consequences.
  + First, by limiting the upper range to 55%, there is almost no room for adjustment in project pricing or market interest rate changes without needed to come back to IHCDA for an additional volume request. Administratively, this add complexity and uncertainty. On both my current projects, additional volume is being requested following determination and I understand many projects have been in the same situation.
  + Second, the spread between tax-exempt bond interest rates and taxable rates is very wide in the current market. Tax exempt bonds will price around 6.00% to 6.25% whereas taxable bonds will be at 7.25% to 7.50%. By pushing more project financing to taxable—as much as 15% to 25% in many model—the net result is significantly increased debt service. This makes projects less viable.
  + RECOMMENDATION: Change the range of volume allocation from 50% to 55% to 50% **to 60%**. This provides more buffer in the project financing and also shifts additional volume to the lower tax-exempt interest rates, making the projects more certain and viable.
* The limitation to “aggregate basis of the building and land of the development” is problematic as well. As you know, many costs are included by the IRS in eligible basis for a project that are beyond land and building. A limitation of 50% to 55% on land and building means the tax exempt bond amount on a project may, in fact, represent as low as 30% to 40% of the overall capital stack. Again, this means more debt on the project that is taxable and at higher interest rates. The debt service increase to projects would be substantial and problematic for new projects.
  + RECOMMENDATION: Adjust the language on the test from ““aggregate basis of the building and land of the development” to either “eligible basis” or “to aggregate project costs”.

My final comment is not direct to the QAP language as written, but is more conceptual. Under this QAP draft, it looks almost impossible to pursue an acquisition / rehabilitation of an existing affordable assisted living facility. Those projects do not qualify for preservation and do not have a clear path to scoring above the minimum threshold. Additionally, they do not meet any of the construction type definitions in the QAP. Consider IHCDA’s expressed desire to see more of these projects and the difficulty recently in our ultimately denied project in Yorktown and Union City. (Which, for discussion, failed mainly on a criteria—minimum unit sizes—now no longer required!)

* + RECOMMENDATION:
    - 1) Specifically include language to note that the acquisition / rehabilitation of existing assisted living properties will follow the path of **adaptive reuse** projects.
    - 2) Include **10 points** for any projects that are the acquisition renovation of assisted living or, alternatively, include language to reduce the minimum score for acq/rehab assisted living projects to be **35-40 points**.

Thank you for your consideration of these items. I am available to discuss with you each or all of them in greater details, as desired.

Kind Regards,

Zeke

\*\*\* Note our address change: 350 Westfield Road, Suite 400, Noblesville, IN 46060 \*\*\*

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