


California Housing Partnership Corporation  
California's Experts on Affordable Housing Finance, Advocacy & Policy

# TAX CREDITS 101



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# Who We Are

California Housing Partnership Corporation

- Sherin Bennett
  - Senior Housing Finance Consultant
- Zorica Stancevic
  - Senior Housing Finance Consultant

California Tax Credit Allocation Committee

- Gina Ferguson
  - Chief, Development Section



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# CHPC Mission

CHPC assists nonprofit and government housing agencies to create, acquire and preserve housing affordable to lower income households, while providing leadership on housing preservation policy and funding.



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## CHPC

Combining Technical Expertise with Advocacy Leadership

- Financial Consulting for Affordable Housing, including Housing Finance Training
- Policy & Research for Preservation & Sustainable Housing

[www.chpc.net](http://www.chpc.net)



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## Agenda

- Tax Credit Basics
- What is a Credit?
- Eligibility and Affordability
- Calculating the Credit
- Types of Credits
- Ownership Structure & Responsibilities
- Obtaining an Allocation
- TCAC Fees & Timeline
- Planning for an Application



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## TAX CREDITS 101

### The Basics



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### The Short Story

- Tax Reform Act of 1986
  - Included tax incentives for affordable housing
    - Major incentive = LIHTC
- IRS apportions LIHTC's to state allocating agencies
  - 2017: \$2.35 per capita  
= \$92,237,540 in annual federal credits (2017)
  - 2018: \$2.40 per capita  
= \$95,667,570 in annual federal credits (2018 estimate)



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### The Short Story (cont.)

- State allocating agencies adopt Qualified Allocation Plans (QAP)
  - Guidelines for allocating credit
- TCAC is CA's allocating agency
  - Developers apply to TCAC for credits
  - TCAC monitors projects for 55-year compliance period (per IRC Sec. 42)



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### The Short Story (cont.)

- Developers market credits to investors
  - Annual credits offset taxes otherwise owed each year for a 10-year period
- Cash paid for credits is equity to help build project
  - Fills gap between TDC and other financing (e.g. bank loans, public agency loans, & grants)



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### How it works (in brief)

- Section 42 of Internal Revenue Code (IRC) with major revisions through HR 3221 adopted into law July 2008.
- LIHTC's = tax incentive (tax shelter)
  - Provides credit against taxes due from owners of newly constructed or rehabilitated low-income housing
  - Must meet federal eligibility guidelines
- Most credits allocated in competitive process by each state



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### How it works (in brief)

- Amount of credits varies by project
  - Depends on several factors, including:
    - Construction and construction-related costs
      - a.k.a. "Eligible Basis"
    - % of eligible units
    - % of project used for affordable housing
- LIHTC equity investments can provide up to 70% of TDC; usually less



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### How it works (in brief)

- Projects owned by limited partnerships (in CA)
- Investor receives credits for 10-year tax credit delivery period
- Typically owns project for 15-year initial compliance period



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### What is a Tax Credit?



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### What is a Tax Credit?



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## TAX CREDITS 101

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### What is a Tax Credit?



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## Tax Credit vs. Tax Deduction (cont.)

- Tax deduction = reduction in taxable income
- Examples for investment property include:
  - Mortgage interest
  - Real estate taxes
  - Operating expenses
  - Depreciation



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## Tax Credit vs. Tax Deduction (cont.)

Tax Deduction			Tax Credit		
	1,000,000	Gross Income		1,000,000	Gross Income
-	200,000	Tax Deduction			
=	800,000	Taxable Income			
x	21%	Tax Bracket	x	21%	Tax Bracket
=	168,000	Tax Liability	=	210,000	Tax Liability
			-	200,000	Tax Credit
			=	10,000	Adjusted Tax Liability




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## TAX CREDITS 101

### Eligibility and Affordability




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### Eligible Projects

- Per Sec. 42 (Federal), must meet basic criteria
  - Non-transient rental housing (includes SRO's)
  - Residents' income  $\leq$  60% of area median income
  - New construction, substantial rehab, and/or acquisition/rehab
- For 9% credits, TCAC (State) specifies types of eligible projects
  - Large family
  - Senior
  - Special needs(including Single room occupancy (SRO's)
  - At-risk



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### Ineligible Projects

- Owner-occupied buildings
- Employer-provided housing
- Nursing homes
- Retirement Homes
- Life care facilities
- Hospitals
- Dormitories
- Mobile Home Parks



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### Affordability

- Guidelines apply to incomes and rents
- Minimum **Federal** Guidelines
  - 20% units at 50% AMI *OR*
  - 40% units at 60% AMI
- TCAC (**State**) Guidelines - 9% Credits
  - Based on competitive scoring table
  - For max points (*most project types*):
    - Most units at 40%, 45%, & 50% AMI *AND*
    - At least 10% units at 30% AMI



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### Affordability Term

- Federal
  - 15-year initial compliance period
  - 30-year extended compliance period
- State of California
  - 9% (competitive) credits: 55 years
  - 4% (noncompetitive) credits: 30 years\*

\*55 years if request higher basis limit



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### Gross Rent Limitation

- Rent  $\leq$  30% of income level (per unit type) based on 1.5 persons per bedroom
- Gross rents include utility allowance
  - Gross rents provided by TCAC
  - Utility allowances: Housing Authority or CUAC method
  - TCAC requires one recertification at first year anniversary
  - No annual recertification for 100% low-income projects thereafter



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### Increases in Household Income

- Unit meets income target if tenant income increases up to 40% above ceiling
- > 40% increase, tenant no longer "low income" but can stay
  - Unit still qualifies for LIHTC
- "Next Available Unit" rule (mixed-income projects)



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## TAX CREDITS 101

### Calculating the Credit



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### Basic Calculation

#### Eligible Basis

X High Cost Adjustment  
= Adjusted Eligible Basis

X Applicable Fraction  
= Qualified Basis

X Tax Credit Rate  
= Annual Tax Credit

X 10 years  
= Total Tax Credits

X Tax Credit Factor (*price*)  
= Investor Equity



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### Eligible Basis

- Cost of acquiring, rehabilitating, and constructing a building
- Excludes:
  - Land acquisition & related costs, permanent financing costs, all reserves, syndication expenses, and marketing costs
- Consult an experienced professional



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### Example

**Development Budget**

- Land Acquisition
- Hard Construction Costs
- Soft Costs (architecture, etc)
- Syndication costs & Reserves

*Total Development Cost*

*Total Eligible Basis*

\$1,000,000
4,000,000
1,000,000
400,000
\$6,400,000
\$5,000,000

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### High Cost Area Adjustment (130%)

- Can increase basis by 30%
  - Applies to new construction or rehabilitation related basis only (not acquisition)
- Eligibility determined by location
  - Federally designated Small Area Difficult to Develop Area (SADDA) or Qualified Census Tract (QCT)

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### Adjusted Eligible Basis

- Eligible basis after high cost area adjustment, if applicable

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### Example

<u>Eligible Basis</u>	<u>\$5,000,000</u>
X High Cost Adjustment	<u>130%</u>
= Adjusted Eligible Basis	<u>6,500,000</u>
X Applicable Fraction	
= Qualified Basis	
X Tax Credit Rate	
= Annual Tax Credit	
X 10 years	
= Total Tax Credits	
X Tax Credit Factor ( <i>price</i> )	
= Investor Equity	

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### Applicable Fraction

- Lesser of:
  - 1) Unit Fraction - ratio of occupied low-income units to all residential rental units
  - OR
  - 2) Floor Space Fraction - ratio of occupied low-income floor space to total residential rental floor space
- Excludes manager's unit (in both the numerator and denominator)

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### Qualified Basis

- Portion of building's eligible basis attributable to low-income tenants

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### Example

Eligible Basis	<u>\$5,000,000</u>
X High Cost Adjustment	<u>130%</u>
= Adjusted Eligible Basis	<u>6,500,000</u>
X Applicable Fraction	<u>100%</u>
= Qualified Basis	<u>6,500,000</u>
X Tax Credit Rate	
= Annual Tax Credit	
X 10 years	
= Total Tax Credits	
X Tax Credit Factor ( <i>price</i> )	
= Investor Equity	



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### Tax Credit Rate

- Appropriate tax credit rate established monthly by the IRS
- Approximately 9% or 4%, depending on project specifics
  - FY2016 Tax Extenders bills permanently set 9% tax credit rate at 9%.
  - 4% credit rate continues to float



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### Annual Tax Credits

- 1 year's worth of credits



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Example	
Eligible Basis	<u>\$5,000,000</u>
X High Cost Adjustment	<u>130%</u>
= Adjusted Eligible Basis	<u>6,500,000</u>
X Applicable Fraction	<u>100%</u>
= Qualified Basis	<u>6,500,000</u>
X Tax Credit Rate	<u>9.0%</u>
= Annual Tax Credit	<u>585,000</u>
X 10 years	
= Total Tax Credits	
X Tax Credit Factor ( <i>price</i> )	
= Investor Equity	

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10 Years of Tax Credits	
<ul style="list-style-type: none"> <li>• Multiply by 10 to reach total amount of tax credits</li> </ul>	

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Example	
Eligible Basis	<u>\$5,000,000</u>
X High Cost Adjustment	<u>130%</u>
= Adjusted Eligible Basis	<u>6,500,000</u>
X Applicable Fraction	<u>100%</u>
= Qualified Basis	<u>6,500,000</u>
X Tax Credit Rate	<u>9.0%</u>
= Annual Tax Credit	<u>585,000</u>
X 10 years	<u>10</u>
= Total Tax Credits	<u>5,850,000</u>
X Tax Credit Factor ( <i>price</i> )	
= Investor Equity	

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### Tax Credit Factor

- Estimated price investor is willing to pay  
(expressed in cents/dollar)



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### Equity from Investor

- Product of 10 year credit and Tax Credit Factor
- Estimate amount of investor equity to the project



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### Example

Eligible Basis	<u>\$5,000,000</u>
X High Cost Adjustment	<u>130%</u>
= Adjusted Eligible Basis	<u>6,500,000</u>
X Applicable Fraction	<u>100%</u>
= Qualified Basis	<u>6,500,000</u>
X Tax Credit Rate	<u>9.0%</u>
= Annual Tax Credit	<u>585,000</u>
X 10 years	<u>10</u>
= Total Tax Credits	<u>5,850,000</u>
X Tax Credit Factor (price)	<u>\$0.95</u>
= Investor Equity	<u><u>\$5,557,500</u></u>



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### Factors that Affect Amount of Tax Credits

- Amount of tax credit eligible basis
- Location in DDA/QCT (130% basis boost)
- California State Tax Credit eligibility
- % tax credit-eligible units



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### Factors that Affect Amount of Tax Credits (cont.)

- % of project used as affordable housing
- Actual tax credit rate
- Sources of funds (tainted money)
- Energy Tax Credits
- Parking in Excess of Amount allowed by TCAC – 9% New construction (Govt Code 65915(p)(2) or (3))
- Threshold basis limits
- Voluntary Basis Reduction – competitive applications



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### Threshold Basis Limits

- TCAC's method of cost control
- Limits based on TCAC internal cost data
  - Adjusted for geographic area & unit size
  - Adjusted by type of credit
    - Base limits for 4% credit projects higher than limits for 9% credit



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### Threshold Basis Limits (cont.)

- Upward adjustments, if applicable/eligible:
  - Prevailing Wage/Davis Bacon (20%) – additional 5% with Project Labor Agreement
  - Parking constructed beneath building or onsite parking structure (7%)
  - Child care facilities with programs (2%)
  - 100% special needs units (2%)
  - Elevator service to 95% of upper floor units (10%)
    - **Above increases limited to 39% total**
  - Energy / resource efficiency / air quality (up to 10%)



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### Threshold Basis Limits (cont.)

- Other upward adjustments
  - Development Impact Fees
    - Add amount of fees to basis limit
      - Park, school, flood control fees, etc.
    - Does not include permit & plan check fees
  - Environmental mitigation & seismic upgrading: lesser of 15% *OR* actual cost
  - 10% increase to TBLs if the development is located in a "high or highest opportunity" area per TCAC/HCD Opportunity Area Map (plus other requirements)



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### Threshold Basis Limits (cont.)

- Boosts for 4%/Bond Projects w/55 year affordability (50 years for projects on tribal trust land)
  - 1% for each 1% of units targeted between 36% & 50% AMI
  - 2% for each 1% of units targeted ≤ 35% AMI



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Example	
Eligible Basis	<u>\$5,000,000</u>
Threshold Basis Limit	<u>\$4,500,000</u>
** Lesser of Two Above	<u>\$4,500,000</u>
X High Cost Adjustment	<u>130%</u>
= Adjusted Eligible Basis	<u>5,850,000</u>
X Applicable Fraction	<u>100%</u>
= Qualified Basis	<u>5,850,000</u>
X Tax Credit Rate	<u>9.0%</u>
= Annual Tax Credit	<u>\$526,500</u>
X 10 years	<u>10</u>
= Total Tax Credits	<u>5,265,000</u>
X Tax Credit Factor (price)	<u>\$0.95</u>
= Investor Equity	<u>\$5,001,750</u>

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Exercise	
Asbury Park Village	

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Types of Credits	




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### Credit Rates (9% vs. 4%)

- 9% Tax Credit = 70% Present Value (of 10-yr stream of credits)
- 4% Tax Credit = 30% Present Value (of 10-yr stream of credits)



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### Monthly Credit Rate Changes

- IRS publishes credit rates monthly
  - FY2016 Tax Extenders Bill now permanently sets 9% tax credit rate at 9%
- Formula based on AFR (derived from T-Bills)
- Credit rate available online

<http://apps.irs.gov/app/picklist/list/federalRates.html>



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### Credit Rate: 12-Month History

- 9% credit –new reservations credit rate set at 9%
- 4% credit – 3.21% to 3.27%
- Rate set prior to **OR** at completion (PIS)
  - If prior to...
    - Carryover Allocation (9% projects)
    - Month of Bond Issuance (4% projects)



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### 9% vs. 4% Credits

- 9% - Competitive
  - Compete through TCAC (highly competitive)
  - Generates large amounts of credits & equity
  - State allocations based on per capita formula



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### 9% vs. 4% Credits

- 4% - Non-Competitive
  - Requires allocation of tax-exempt bonds from CA Debt Limit Allocation Committee (CDLAC)
  - Available from TCAC w/o competing (subject to meeting threshold requirements)
  - No state volume cap on credits
  - Generates lower credits & less equity
  - If seeking allocation of State credits with 4% federal credits, then application goes through competitive process



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### Credit Rates & Project Type

- New Construction
- Acquisition/Rehabilitation



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### New Construction

- Competitive 9% credit for construction-related costs
- If tax-exempt bonds, non-competitive 4% credit for construction-related costs



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### Acquisition/Rehabilitation

- Competitive credit:
  - Competitive 9% credit (substantial rehab-related costs)
  - +
  - Competitive 4% credit (building acquisition cost in certain cases)
- If tax-exempt bonds:
  - Non-competitive 4% credit (substantial rehab-related costs)
  - +
  - Non-competitive 4% credit (building acquisition cost in certain cases)



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### 10-Year Rule

- No 4% acq credits if ownership changed in past 10 years
  - Includes sales and transfers of interest
  - Exceptions for foreclosures, government purchases, or projects substantially financed by federal or state housing programs
- Consult tax attorney early (i.e., BEFORE acquiring building)



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## Substantial Rehabilitation Federal Requirement

Rehab-related expenditures are GREATER OF:

- \$6,700 per tax credit unit (2017 amount- adjusted annually for inflation); OR
- 20% of acquisition basis (i.e., cost of building + related costs excluding land)

Note: TCAC (\$40,000/unit for 9% credits, \$15,000/unit for 4% credits) imposes additional rehab expenditure requirements



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## CA State Tax Credits

- California program augments Federal credits
  - Cannot be used alone
  - Orig. for projects ineligible for 130% boost
  - Now available by request, but must maximize Federal ask
- Eligibility (any of criteria below)
  - Not located in DDA or QCT, or
  - Applicant's election, or
  - Special Needs housing type w/ at least 50% special needs units (even in DDA or QCT)
    - Special Needs projects not located in DDA/QCT are granted DDA status (9% only)
  - State Farmworker Credits + 4% (even in DDA or QCT)



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## CA State Tax Credits (cont.)

- CA State credits available for
  - Construction-related eligible basis
  - At-risk only: Acquisition-related eligible basis
- Most CA state credits used with 9% projects
- 15% of CA state credits can be used for 4% projects if certain TCAC criteria are met, but competitive
- Pricing
  - Investor must have CA tax liability
  - Option to certificate state credits (irrevocable)



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### CA State Tax Credits (cont.)

- Calculating for 9% tax credit projects
  - 30% credit rate for construction basis
  - 13% credit rate for acquisition basis (At-Risk only)
  - Delivered over **4** years
    - **First 3 years:** credit rate for Federal credits
    - **Fourth year:** 13% or 30% minus sum of credit rates from years 1-3
- Calculating for 4% tax credit projects
  - 13% credit rate for construction basis
  - 75% credit rate for farm worker projects



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### CA State Tax Credits (cont.)

Example:

Qualified Basis Amount	1,000,000
State Credit Rate	$\times 30\%$
Total State Credit	300,000

Qualified Basis Amount	1,000,000
Federal Credit Rate	$\times 9.0\%$
Annual Credit (Yrs 1-3)	90,000
For 3 years	$\times 3$
Total for first 3 years	270,000
Total State Credit (from Above)	300,000
Remaining Credit for year 4	30,000



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## TAX CREDITS 101

### Ownership Structure & Responsibilities




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## Ownership Structure

### LIMITED PARTNERSHIP

- Owns project
- 2 partners at minimum:
  - Managing General Partner
    - Typically sponsor or affiliate
  - Limited Partner
    - Tax credit investor



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## Ownership Diagram

- Equity flows to project
- Tax Benefits flow to LP



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### GP

- Typically holds .01% share of partnership
- Manages day-to-day operations (Managing Partner)
- Can be nonprofit corporation or nonprofit controlled Limited Liability Corporation

### LP

- Typically holds 99.99% share of partnership
- No direct management oversight (Passive Investor)
- Usually single corporate investor or multi-investor equity fund




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GP	LP
<ul style="list-style-type: none"> <li>• Unlimited liability (except non-recourse debt)</li> <li>• Often develops the project</li> <li>• Receives fees for services (e.g., developer fee, partnership management fee)</li> </ul>	<ul style="list-style-type: none"> <li>• Liabilities limited to equity investment</li> <li>• No role in development</li> <li>• Syndicator will receive fees; net equity pay-in takes these fees into account. May charge asset mgt fee</li> </ul>

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GP	LP
<ul style="list-style-type: none"> <li>• May receive more than pro rata share of cash flow, sales proceeds, and other benefits</li> <li>• Provides guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Not usually motivated by cash flow or sales proceeds, only tax benefits</li> <li>• Require guarantees</li> </ul>

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Who are Investors?
<ul style="list-style-type: none"> <li>• Investors are corporations or pools of corporations</li> <li>• Direct Investors <ul style="list-style-type: none"> <li>• US Bank, BofA, Wells Fargo, Union Bank(?)</li> </ul> </li> <li>• Non-profit Syndicators <ul style="list-style-type: none"> <li>• National Equity Fund, Enterprise Community Investments, Merritt Community Capital</li> </ul> </li> <li>• For-profit Syndicators <ul style="list-style-type: none"> <li>• Raymond James, Redstone, Hudson Housing Capital, Alliant, Hunt, RBC, Boston Capital</li> </ul> </li> </ul>

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### Investor Pricing

- Investor motivated by tax credits and tax losses (collectively, "tax benefits")
  - Pricing based on investor's Internal Rate of Return (IRR), which takes into account
    - timing of equity pay-ins
    - 15-year stream of tax benefits
- Note: tax benefits include credits and other "tax losses" from the real estate investment*
- Pricing expressed as "Cents on the Dollar" of tax credits
    - i.e., equity as % of total tax credits



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## TAX CREDITS 101

### Obtaining an Allocation



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### Allocating Agency

- Allocations are obtained from the California Tax Credit Allocation Committee (CTCAC)
- Regulations and application forms available on TCAC's web site:  
<http://www.treasurer.ca.gov/ctcac/>



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### Three Ways to Get Credits

- 4% Credits (Non-Competitive Allocations)
  - For projects financed with tax-exempt bonds
  - 4% credit on acquisition and construction related basis
  - Guaranteed allocation if requirements met
- 9% Credits (Competitive Allocations)
  - 9% credit on construction basis with or without 4% credit on acquisition basis
  - "Hybrid" 9% + 4% credits on new construction basis
  - California Credit
  - Limited amount of credit, must compete



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### Ways to Get Credits (cont'd)

- 4% Credits with State Credits (Competitive Allocations)
  - For projects with tax exempt bonds
  - 4% credit on acquisition and construction related basis
  - State credit for construction related basis (acquisition related basis only if meets at-risk definition)
  - Submit application in same funding rounds as 9% application funding rounds



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### Threshold Requirements for all applications

- Housing need and demand
  - Substantiated by market study, rents must be at least 10% below market
- Site control
- Local approvals and zoning
- Financial feasibility
- Sponsor characteristics
- Minimum construction standards



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### TCAC Underwriting & Feasibility Criteria

- Developer fee limits, generally:

Project Type	Base Fee	Maximum in Basis	Notes
9% New Construction	Lesser of \$2.2M or 15% of basis	Lesser of \$1.4M or 15% of basis	Base fee is then adjusted by a high-cost test factor
9% Acq/Rehab	Lesser of \$2.0M or 15% of basis	Lesser of \$1.4M or 5% of acquisition plus 15% of construction basis	In-basis limits are higher for projects over 200 units
4% New Construction	15% of basis		Defer fee amounts over \$2.5M
4% Acq/Rehab	5% of acquisition plus 15% of construction basis (At-risk, or \$25K/unit rehab, or 30% of units at 50% AMI can use 15% of acquisition basis)		Defer fee amounts over \$2.5M

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### TCAC Underwriting & Feasibility Criteria (cont.)

- Construction contract limits
  - General Conditions + Overhead & Profit cannot exceed 14% of construction cost (*excluding bond + insurance*)
- Minimum operating expenses
  - Matrix of housing type, location, elevator/non-elevator



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### TCAC Underwriting & Feasibility Criteria (cont.)

- Annual Replacement reserve
  - \$250 pupa – New construction & senior projects
  - \$300 pupa – Other projects
- Capitalized operating reserve
  - 3 months debt service plus expenses
- Trending assumptions
  - 2.5% income
  - 3.5% expenses
  - 2.0% property taxes



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### TCAC Underwriting & Feasibility Criteria (cont.)

- Property Tax
  - 1% of Replacement Value unless eligible for Welfare Exemption
- Vacancy Rates
  - 5% Large Family, Senior, and At-Risk
  - 5% Special Needs (incl SRO) with a project based rental subsidy
  - 10% Special Needs (incl SRO) without a project based rental subsidy
- Loan Terms
  - Rate, term, DCR supported
  - Minimum DCR = 1.15 (can be less if HUD, CalHFA, or RHS loan)



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### TCAC Underwriting & Feasibility Criteria (cont.)

- Variable interest rate permanent Loans
- Underwritten at ceiling
- Maximum cash flow after debt service
- For first 3 years, higher of
  - 25% annual debt service
  - 8% gross residential income
- Can be higher if needed to maintain feasibility for 15 years but cash flow after debt service must be below the greater of 2% gross residential income or \$25,000 (or \$500/unit, whichever is lower)
- Residential vs. commercial income/expenses
  - Each must be independent



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### Additional Requirements for 4% Credit (non-competitive) apps

- Minimum of 50% of basis plus land must be financed with tax-exempt bonds (50% test)
- Must have received bond allocation from California Debt Limit Allocation Committee (CDLAC)
- For rehabs, must have minimum \$15,000 hard cost per unit or 20% of adjusted basis of building, whichever is higher



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### 9% Credits (Competitive Allocations)

- Additional threshold requirements
- 2018 point system & tie breakers
- The allocation system



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### Additional Threshold Requirements (9% Credits/competitive apps)

- Deferred-payment financing, grants, subsidies must be committed
- Project size limits
  - Rural – 80 units
  - Others – 150 units
  - Rehab – no limit
  - Waivers for Rural projects near urban centers, urban Hope VI & large neighborhood revitalization projects
- \$40,000 minimum rehab cost or 20% of adjusted basis of building, whichever is higher



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### Additional Threshold Requirements (cont.)

- Must be one of four housing types:
  - **Large Family**—at least 25% three bedroom or larger units (plus additional 25% two bedroom or larger if land use entitlements received after 12/31/2015)
  - **Special Needs**—average targeted income 40% AMI or below (for SN and non-SN SRO units), at least 45% of units need to serve a special needs population
    - If less than 75% SN, the non-SN units must meet specific additional housing type goals.
  - **Senior**—all units restricted to seniors (62 years old +)
  - **At-Risk**—existing federally subsidized project at risk of converting to market rate



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## Additional Threshold Requirements (cont.)

- Housing types have additional requirements
  - Required amenities
  - Unit sizes
  - Tenant services
  - Leveraging



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## 2018 Point System

CATEGORY	POINTS	NOTES
1 Experience	9	GP - 6 pts, Mgmt. Co. - 3 pts.
2 Housing Needs	10	Must meet a housing type
3a) Site Amenities	15	1-7 pts. per site amenity
3b) Service Amenities	10	2-7 pts. per service amenity
4 Sustainable Building Methods	5	LEED/Green Comm./Green Point/Title 24
5 Lowest Income	52	10% @ 30% AMI to receive full pts.
6 Readiness to Proceed	10	Begin construction within 180 days of award
7 Misc. Fed/State Policies	2	1-2 pts. per item
MAXIMUM TOTAL POINTS		113

*\*specific scoring applies to the 4% component of a "hybrid" 9% + 4% application*



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## Tie Breakers

- Initial – for LA and SF only
  - Formal letter of support from SF MOH or HCIDLA
- 1<sup>st</sup> - Housing type
  - Next project with same score but unmet housing type
- 2<sup>nd</sup> - Sum of following two ratios:
  - Committed Permanent Soft (Unrelated Party) Funds plus grants, capitalized value of rental/operating subsidies (assuming TCAC underwriting), donated land & improvements from unrelated party, fee waivers from a local jurisdiction less purchase price over appraised value PLUS Size Factor for new construction\* > 50 Units / TDC
  - [(One minus (Unadjusted Eligible Basis/TDC)) divided by three. Requested unadjusted eligible basis increased by the amount of the reduction to eligible basis that is less than or equal to the amount of leveraged soft resources but exclusive of donated land value, fee waivers, and capitalized value of rental/operating subsidies (assuming TCAC underwriting)]
  - Above ratios are recalculated for "hybrid" 9%+4% projects across the 9% and 4% components
  - Highest ratio wins
  - In 2019, tiered boosts (5-20%) shall apply to projects based on the designation of the project's location on the TCAC/HCD Opportunity Area Map

*\*size factor is limited to first 150 tax credit units.*



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## High Cost Projects

- High Cost if project's eligible basis exceeds adjusted Threshold Basis Limit by 30% will not be recommended for a reservation of tax credits
- Post tax credit reservation - Project costs may exceed 130% of threshold basis limits but cannot exceed 140% of threshold basis limits at completion or risk negative points



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## The Allocation System

- **Housing type goals**
  - Large Family\* 65%
  - Special Needs 30%
  - At-Risk 15%
  - Senior 15%
  - Acquisition and/or Rehabilitation within the rural set-aside only 30%

\*In 2019, add Large Family New Construction receiving a tiebreaker increase for projects located in a census tract TCAC/HCD Opportunity Area Map as Highest or High Resource 30%



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## The Allocation System (cont.)

- **Set-Asides<sup>1</sup>**
  - Non-Profit (priority to homeless) 10%
  - Rural<sup>2</sup> 20%
  - At-Risk 5%
  - Special Needs 4%
  - Credit holdback/Supplemental<sup>3</sup> 3%
  - Total 42%**

<sup>1</sup>The Set-Asides do not count against Geographic Apportionments

<sup>2</sup>Rural may not compete in other Geographic Areas or Set-Asides. Also, TCAC imposes limit on Senior projects (15%) and aca/rehab projects (30%) in Rural set-aside. Rural includes \$1 million Native American set-aside and 14% of set-aside for RRS and HOME funded projects.

<sup>3</sup>Round 2 has a "Second Supplemental Set-Aside" in order to swap out Federal for State credits when State Credits are over-subscribed.




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The Allocation System (cont.)

• Geographic Apportionments (by County)

• City of Los Angeles	17.6%
• Balance of LA County	17.2%
• Central Valley Region	8.6%
• San Diego County	8.6%
• Inland Empire Region	8.3%
• East Bay Region	7.4%
• Orange County	7.3%
• South & West Bay Region	6.0%
• Capital & Northern Region	5.7%
• Central Coast Region	5.2%
• Northern Region	4.4%
• San Francisco County	3.7%



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Exercise

Turkey Village



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California Housing Partnership Corporation  
California's Experts on Affordable Housing Finance, Advocacy & Policy

TAX CREDITS 101

TCAC Fees & Timeline



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### TCAC Fees - 9% Credits

- Application Fee
  - \$2,000 non-refundable cashier's check *OR*
  - \$1,000 if Local Reviewing Agency waives its share
- Reservation Fees
  - 4% of annual federal credit Performance Deposit (refundable/ applied to monitoring fee)
  - 4% of annual federal credit Allocation Fee
- Monitoring Fee
  - \$410/TCAC unit Monitoring Fee



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### TCAC Timeline – 9% Credits

- Assess tax credit feasibility/assemble experienced development team
- Obtain a reservation of tax credits in year 1
  - Pay TCAC fees (Allocation & Performance Deposit)
- Select investor & form final limited partnership
- Submit investor Letter of Interest (LOI) within 90 days if any "Readiness to Proceed" points received



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### TCAC Timeline – 9% Credits

- Close construction financing within 180 or 194 days if full "Readiness to Proceed" points received
- Carryover allocation: 10% test within 12 months of carryover
- Obtain (T)C of O by the end of year 3 (2<sup>nd</sup> year following year of reservation) ex: credit reservation received in 2018; CofO due end of 2020
- Rent up project on schedule to meet commitment to investor



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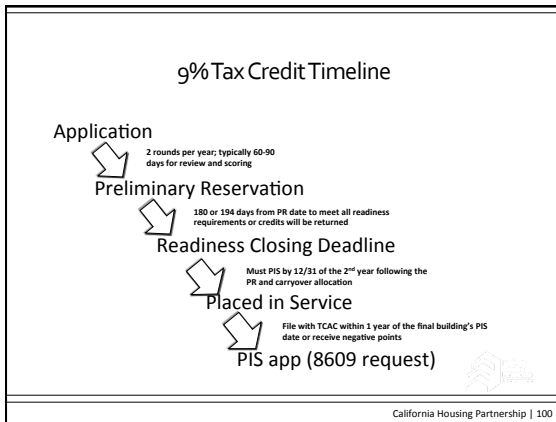
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### Application

- Competitive application
  - 2 rounds per year, usually
    - March
    - July
- Non-competitive allocations must still submit application
  - App's considered at monthly meetings
  - CDLAC application must be submitted within 10 days after TCAC preliminary reservation (State credit projects) or if noncompetitive, then prior to or concurrently with TCAC application.

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### Preliminary Reservation

- Awarded 2-3 months after application
- Within 20 days of award, performance deposit (reservation fee for 4% applications) due
  - If competitively awarded: 4% of annual federal credit reserved
  - Bond projects: 1% of federal credit reserved
  - Performance Deposit refundable

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### Carryover Allocation (9%/Competitive only)

- If not Placed In Service and 8609s not issued in same year as preliminary reservation, must receive carryover allocation
  - N/A for 4%/bond projects
- Must meet “10% test”
  - Incur 10% of sum of land + total eligible basis anticipated upon completion
  - Within 12 months of the carryover date, i.e., by October of year following preliminary reservation



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### Placed in Service

- Occurs when “placed in service”-- i.e. suitable for occupancy
  - If 9%, must meet PIS within 24 months of carryover
  - New Construction – PIS at C of O or temporary C of O
  - Acquisition/Rehabilitation - PIS more flexible - can choose anytime after minimum rehab test is met



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### Placed in Service (cont.)

- TCAC compliance monitoring fee due
  - \$410/low-income unit
  - Performance deposit refund applied to fee
- TCAC regulatory agreement executed and recorded
- IRS 8609 forms issued
  - 8609's allocate annual credits



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### Timeline and Fees – 4% Credits

- Allocations made monthly
- Reservation fee is 1% of annual credit, no performance deposit
- No carryover requirement
- No readiness requirement, but will have bond closing deadline, which is 180-194 days from CDLAC award (if non-competitive process which is currently the case)
- No placed in service deadline requirement, but must submit PIS package to TCAC within 1 year of the final building PIS date



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## TAX CREDITS 101

### Planning for a TCAC Application



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### Planning Ahead for a Tax Credit Application

- Regulations Revised
  - Usually towards end of the calendar year
- 2 application cycles
  - Usually March and July



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### Planning Ahead for Application Requirements

- Minimum threshold requirements
  - Site control
  - Enforceable financing commitments
  - Local approvals and zoning
  - Sponsor characteristics
  - Deferred-payment financing, grants, subsidies



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### Planning Ahead for Competitiveness

- Point categories that require advanced planning:
  - Readiness to Proceed
  - Sustainable Building Methods
  - Site & Service Amenities



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### Readiness to Proceed

- Required at time of application:
  - Enforceable commitments for all construction financing
  - Site plan approval and necessary environmental review clearance to begin construction
  - Public approvals (except building permit)
- Must commence construction within 180-194 days of reservation



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### Sustainable Building Methods

- Requires architect's involvement
- Sustainable Building Methods and Minimum Construction Standards for Energy Efficiency Workbook



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### Site & Service Amenities

- Service commitments require coordination with outside agencies
- Site amenities require collaboration with architect



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