



Low-Income Housing Tax Credits

Tacoma-Pierce County
Affordable Housing Consortium



What are Low-Income Housing Tax Credits?

- Authorized by Congress (since 1986)
- Regulated by IRS
 - Section 42 of IRC
- Administered by Washington State Housing Finance Commission (WSHFC) in WA

How do LIHTC work?

- Project sponsor receives LIHTC allocation from WSHFC
- Credits are sold to investor
- In exchange for equity, investor gets:
 - 10 years of tax credits
 - 15 years of passive tax loss

Two Kinds of LIHTC

- 4% Credits
 - Allocated to recipients of private activity tax-exempt bond cap
- 9% Credits
 - Per capita allocation to states
 - Allocated to projects through annual competitive process run by WSHFC

LIHTC Fundamentals

- Obtaining an LIHTC allocation
- Calculating tax credits
- Selling tax credits

Obtaining an allocation of 4% tax credits

- Requires competitive allocation of tax-exempt bond financing from either WSHFC or local housing authority
- 50% of project must be bond financed (although some may be the bridge financing)

Obtaining an allocation of 9% tax credits

- Annual competition
 - January deadline
 - Allocation point system
- Limited to per capita authority
 - Between \$14M - \$15M available in Washington in 2010
 - Allocation is amount of annual credits made available over 10 years
 - Total credits = 10 x allocation

Obtaining an allocation of 9% tax credits

- Allocation criteria
 - Income targeting
 - Length of commitment
 - Special needs set-asides
 - Homeless
 - Farmworker
 - Large households
 - Senior
 - Disabilities
 - Leveraging of public resources
 - Limiting developer fee

Obtaining an allocation of 9% tax credits

- Allocation criteria (continued)
 - Location of project
 - County housing needs
 - Targeted areas
 - Type of project
 - Preservation of existing subsidized housing
 - Rehab
 - Historic
 - Donation in support of local housing needs
 - Washington State Quality Awards
 - Tenant ownership

Obtaining an allocation of 9% tax credits

- Allocation criteria (continued)
 - Set-asides
 - Qualified non-profit (10%)
 - Rural Development (5%)
 - Rural projects (15%)
 - HOPE VI (20%)
 - Limits
 - King County projects (40%)
 - Per project (10%)
 - Per sponsor (15%)

Calculating tax credits

- Eligible basis
- High cost area adjustment
- Applicable fraction
- Applicable percentage
- WSHFC limits

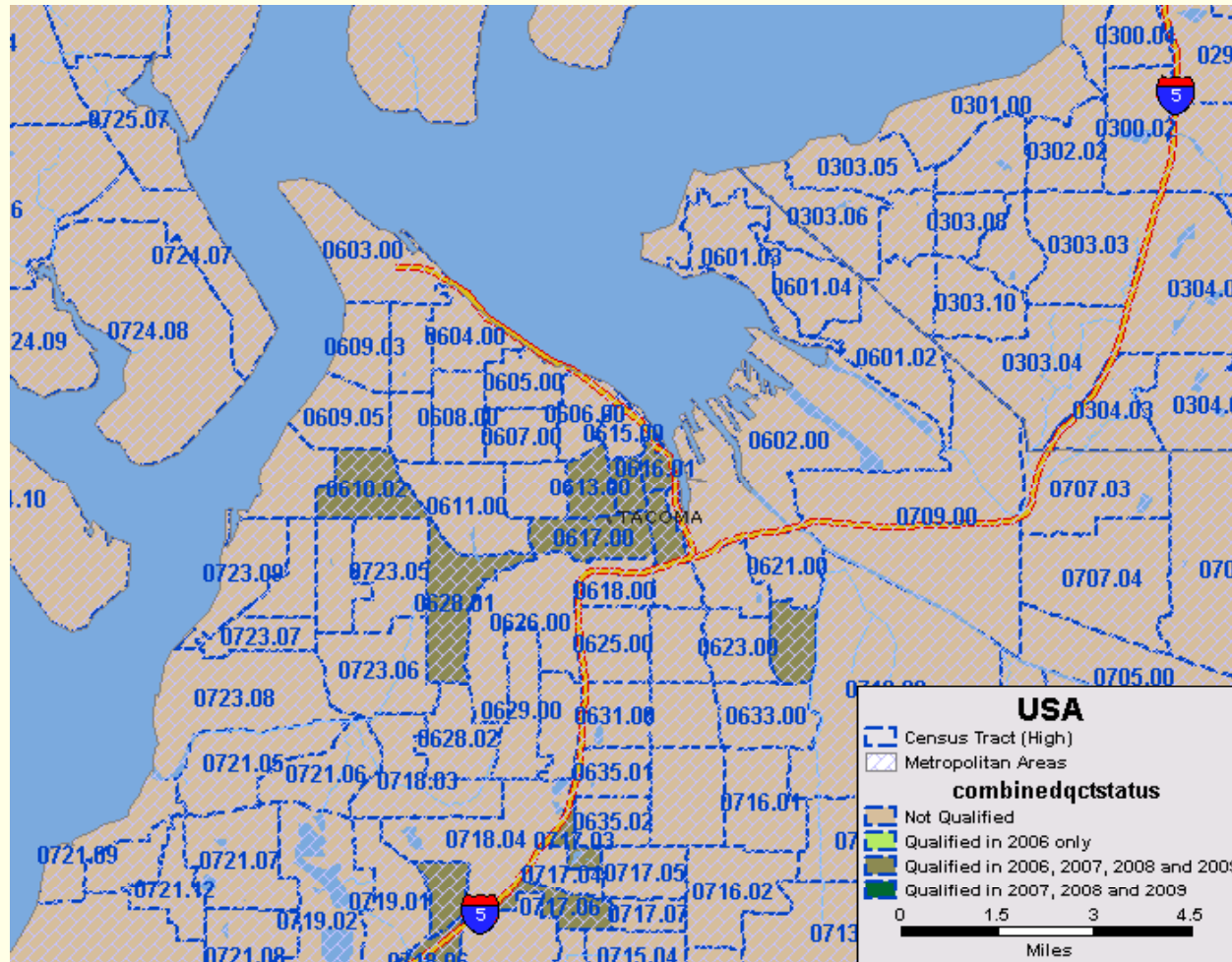
Eligible basis

- Portion of total project costs
 - Excludes:
 - Costs attributable to land
 - Off-site costs
 - Permanent financing costs
 - Reserves
- Acquisition basis
- Rehab/new construction basis

High cost area adjustment

- Also called “boost”
- Increases eligible basis by 30%
- High cost areas
 - Difficult Development Areas
 - Clallam, Jefferson, Lewis, Mason, San Juan
 - Qualified Census Tracts
 - State-designated high cost areas
 - 9% projects only

Qualified Census Tracts



Applicable fraction

- Percentage of units that qualify for Low-Income Housing Tax credits
 - Units must target incomes of 60% AMI or less

Applicable percentage

- Also called “tax credit rate”
 - Rate eligible basis is multiplied by to determine tax credits
 - Set monthly by U.S. Treasury
 - 4% tax credits: 3.33% in October 2009
 - 9% tax credits:
 - Acquisition basis: 3.33% in October 2009
 - Rehab/new construction basis: 9%*
- * Minimum fixed by HERA through 2013

WSHFC Limits

- Per unit limits
 - \$15,885 per unit
 - \$20,610 per unit in high cost areas
- Per project limits
 - 10% of available annual authority
- Per sponsor limits
 - 15% of available annual authority

Calculating tax credits

- Maximum tax credits =
 - Eligible basis x
 - High cost area adjustment x
 - Applicable fraction x
 - Applicable percentage
- Capped by per unit and per project (9% only) limits
- Example

Selling tax credits

- Finding an investor
- Pricing the credits
- Setting up the deal

Finding an investor

- Syndicators
 - National Equity Fund
 - Enterprise
 - Homestead Capital
 - RBC Apollo
- Direct investors
 - Banks
 - Insurance companies
 - Utilities

What an investor cares about

- Risk
- Reward
- Compliance economies of scale

What an investor cares about: Risk

- Construction completion risk
 - Avoid challenging projects
 - Developer fee holdbacks/guarantees
- Operating loss risk
 - Size of market and market rents
 - Need for operating/rental subsidies
 - Operating reserves and guarantees
 - Financial capacity of sponsor

What an investor cares about: Risk (cont.)

- LIHTC compliance risk
 - Renting units to qualified households
 - Renting units at affordable rents
 - Prefer LIHTC-experienced sponsors

What an investor cares about: Reward

- Yield
- Community Reinvestment Act
- Community goodwill

What an investor cares about: Compliance economies of scale

- Compliance issues are similar for all sizes of projects
- Investors prefer putting their investment dollars in fewer projects
 - Many investors want investments of at least \$3 million

What determines yield

■ Supply

□ Amount of tax credits

- New LIHTC
- Existing LIHTC projects
- New Markets Tax Credits
- Renewable Energy Tax Credits

□ Availability of other investments

■ Demand

□ Number of investors

Calculating Yield

- Cost
 - Amount of investment
- Benefit
 - 10 years of tax credits (reduction in tax liability)
 - 15 years of tax loss (deduction from taxable income)
- Example

Community Reinvestment Act

- Requires banks to reinvest in communities from which they receives deposits
- Some LIHTC investments can offer valuable CRA credit to banks
- Bank investors may require smaller yields from LIHTC projects that provide CRA credit

Pricing the credits

- Tax Credit Factor
 - What \$1 of credit can be sold for
- Tax Credit Factor determinants
 - Investor yield requirements
 - Timing of investor disbursements
 - Construction financing?
 - Timing of tax credit delivery
 - Based on rent-up of units
- Example

Setting up the Deal

- For-profit Limited Partnership
 - General Partner (0.01% owner):
Project sponsor
 - Limited Partner (99.99% owner):
Tax credit investor
- Partnership agreement lays out relationship
- Must own project for at least 15 years

Setting up the Deal: Year 15

- Right of first refusal price for sponsor
 - Exit taxes due when investor has written off more in tax losses than original investment
 - Credit adjusters if project delivers less than projected amount of credits
 - Assumption of outstanding debt
- Sponsor purchase option price
 - Appraised value subject to surviving income restrictions

Setting up the deal: Experienced consultants

- Development consultant
- Tax attorney
- CPA
- Property manager/consultant

Development consultant

- Prepares application
- Helps evaluate investor proposals
- Oversees investor due diligence & closing process
- Assists with WSHFC compliance during construction
- Prepares draw requests to investor

Tax Attorney

- Negotiates legal documents
- Writes tax opinion

Certified Public Accountant

- Prepares 10% cost certification
- Prepares final cost certification
- Prepares annual audits for for-profit ownership entity
- Prepares tax returns for for-profit ownership entity

Property management consultant

- Oversees ongoing tax credit compliance
 - Qualifies tenants for occupancy
 - Ensures rents are compliant
 - Keeps LIHTC records
 - Prepares annual reports
- Manages the tenants
- Manages the facility

Recent Pierce County 9% LIHTC Projects

Year	Project	Developer	City	Units	Investor
2009	Salishan – Phase Seven	Tacoma Housing Authority	Tacoma	90	N/A (exchange)
2008	Salishan – Phase Six	Tacoma Housing Authority	Tacoma	89	RBC Apollo
2008	Guadalupe Vista	Catholic Community Services of WW	Tacoma	50	Enterprise
2007	Fern Hill Terrace Apartments	Shelter Resources Inc/MSC	Tacoma	25	
2007	Hawthorne Lane Apartments	Timber River Development, Inc.	Graham	31	N/A (exchange)
2007	Salishan – Phase Five	Tacoma Housing Authority	Tacoma	90	RBC Apollo
2006	Salishan – Phase Four	Lorig Salishan/THA	Tacoma	86	RBC Apollo
2005	Catalina Apartments	Intercommunity Mercy Housing	Tacoma	42	Alliant Capital
2005	Orchard West	McDonald Ladd Development	Tacoma	25	
2005	Rainier View Senior Apartments	Multi-Service Center	Fife	49	Enterprise
2005	Salishan – Phase Three	Lorig Salishan/THA	Tacoma	90	MMA Capital
2005	Sunset Meadows Family Housing	Low Income Housing Institute	Milton	29	Enterprise
2004	Hillside Terrace 1500 Block	Tacoma Housing Authority	Tacoma	16	Red Capital
2004	Salishan – Phase Two	Lorig Salishan/THA	Tacoma	89	MMA Capital

Recent Pierce County 4% LIHTC Projects

Year	Project	Developer	City	Units
2006	Orchard Hills Apartments	Prium Homes	Tacoma	175
2006	Wisteria Walk Apartments	Goodman Real Estate/Pinnacle	Lakewood	119
2005	Woodmark Apartments	Goodman Real Estate/Pinnacle	Tacoma	286
2005	Pine Tree Harbor Apartments	The Conifer Company	Tacoma	58
2005	Conifer South Apartments	The Conifer Company	Tacoma	31
2005	Redwood Juniper Apartments	The Conifer Company	Tacoma	210
2005	Parkland Manor	Metropolitan Development Council	Tacoma	39
2004	Orchard Heights	MacDonald Ladd Development	Tacoma	25

Current LIHTC environment

- Loss of investors
- More tax credit programs
- Higher yields/lower tax credit factors
- Federal fixes
 - HERA
 - ARRA
 - 2010 consensus proposal

Loss of investors

- Fannie Mae and Freddie Mac withdrew from LIHTC market
 - 30%–40% of total market
- Banks are investing less
 - Some went out of business
 - Many others are not generating taxable income
- 50%-60% of LIHTC investment gone

More Tax Credit Programs

- New Markets Tax Credits
- Renewable Energy Tax Credits

Impact on LIHTC Projects

- Some projects can't find investors
 - Rural projects
 - Projects that need operating subsidy
- Investor yield requirements have increased from as low as 5% to as high as 12%
- Tax credit factors have plummeted by over 25%

Housing and Economic Recovery Act of 2008 (HERA)

- Increased per capita LIHTC available by 10% for 2008 & 2009
- Fixed Alternative Minimum Tax issue
- Set 9% applicable percentage at 9% through 2013
- Made it easier to combine LIHTC with other federal funds

American Recovery and Reinvestment Act (ARRA)

- Exchange provision
 - Unused per capita credits from 2007 & 2008 may be exchanged for \$0.85/\$1 of credit
 - 40% of 2009 per capita credits may be exchanged for \$0.85/\$1 of credit
- Tax Credit Assistance Program
 - \$2.25B of special HOME allocation to provide gap financing on LIHTC deals

2010 consensus proposal

- Exchange provision
 - 40% of 9% credits may be exchanged for \$0.85/\$1 of credit
 - 4% tax credits may be exchanged for \$0.85/\$1 of credit
- 5-year carryback provision
 - Investors offset credits and losses with last 5 years of income
- Enable S corporation investors



Looking for help with Low-Income Housing Tax Credits?

www.commongroundwa.org

Common Ground
Seattle, WA 98104
206-461-4500

Common Ground
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509-326-3678