# Tax Credits 101

## Who We Are

California Housing Partnership Corporation

- Zorica Stancevic
  - Program Manager

# 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.

# CHPC

- Three Core Lines of Business:
  - Financial Consulting for Affordable Housing
  - Preservation Policy
  - Training
- Resources
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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
- Planning for an Application

# Tax Credits 101

## The Basics

## 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
  - 2012: $2.20 per capita

  = $1.75 (2003) + annual inflation

## 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)

## 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)

## How it works (in brief)

- Section 42 of Internal Revenue Code (IRC) with major revisions through HR 3221 adopted into law July 08.
- LIHTC's = tax <u>incentive</u> (tax shelter)
  - Provides <u>credit</u> 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

## 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 ;  may be less

## 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

## How it Works (in brief)

- Two types of credits:
  - 9% tax credit - competitive
  - 4% tax credit - noncompetitive - coupled with tax exempt bonds

# Tax Credits 101

What is a Tax Credit?

# Tax Credit vs. Tax Deduction

- Tax Credit = $1 for $1 reduction of taxes owed
  - Examples include:
    - Low Income Housing Tax Credit
    - New Market Tax Credit
    - Business Energy Tax Credit (photovoltaic technology)
    - Earned Income Tax Credit
    - Child Care Tax Credit
    - Higher Education Tax Credit

# 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

# Tax Credit vs. Tax Deduction (cont.)

| Tax Credit | | | Tax Deduction | | |
|---|---|---|---|---|---|
| | 1,000,000 | Gross Income | | 1,000,000 | Gross Income |
| | | | - | 300,000 | Tax Deduction |
| | | | = | 700,000 | Taxable Income |
| x | 35% | Tax Bracket | x | 35% | Tax Bracket |
| = | 350,000 | Tax Liability | = | 245,000 | Tax Liability |
| - | 300,000 | Tax Credit | | | |
| = | 50,000 | Adjusted Tax Liability | | | |

# Tax Credits 101

Eligibility and Affordability

# Eligible Projects

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

# Ineligible Projects

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

# 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

# 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

## Gross Rent Limitation

- Rent ≤ 30% of income (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

## 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)

# Tax Credits 101

Calculating the Credit

# Basic Calculation

<u>Eligible Basis</u>

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

# 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

# Example

Development Budget

| | |
|---|---|
| • Land Acquisition | $1,000,000 |
| • Hard Construction Costs | 4,000,000 |
| • Soft Costs (architecture, etc) | 1,000,000 |
| • Syndication costs & Reserves | 400,000 |
| *Total Development Cost* | *$6,400,000* |
| *Total Eligible Basis* | *$5,000,000* |

## 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 Difficult to Develop Area (DDA) or Qualified Census Tract (QCT)

## Adjusted Eligible Basis

- Eligible basis after high cost area adjustment, if applicable

# Example

| | |
|---|---|
| Eligible Basis | $5,000,000 |
| X High Cost Adjustment | *130%* |
| = Adjusted Eligible Basis | *6,500,000* |
| 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 | |

# 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)

# Qualified Basis

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

# Example

| | |
|---|---|
| Eligible Basis | $5,000,000 |
| X High Cost Adjustment | 130% |
| = Adjusted Eligible Basis | 6,500,000 |
| X Applicable Fraction | 100% |
| = Qualified Basis | 6,500,000 |
| X Tax Credit Rate | |
| = Annual Tax Credit | |
| X 10 years | |
| = Total Tax Credits | |
| X Tax Credit Factor *(price)* | |
| = Investor Equity | |

## Tax Credit Rate

- Appropriate tax credit rate established monthly by the IRS
- Approximately 9% or 4%, depending on project specifics
  - HR 3221 Exception:  for 9% projects PIS prior to 12/31/13, use full 9% rate

## Annual Tax Credits

- 1 year's worth of credits

# Example

| | |
|---|---|
| Eligible Basis | $5,000,000 |
| X High Cost Adjustment | 130% |
| = Adjusted Eligible Basis | 6,500,000 |
| X Applicable Fraction | 100% |
| = Qualified Basis | 6,500,000 |
| X Tax Credit Rate | 9.00% |
| = Annual Tax Credit | 585,000 |
| X 10 years | |
| = Total Tax Credits | |
| X Tax Credit Factor *(price)* | |
| = Investor Equity | |

# 10 Years of Tax Credits

- Multiply by 10 to reach total amount of tax credits

# Example

| | |
|---|---|
| Eligible Basis | *$5,000,000* |
| X High Cost Adjustment | *130%* |
| = Adjusted Eligible Basis | *6,500,000* |
| X Applicable Fraction | *100%* |
| = Qualified Basis | *6,500,000* |
| X Tax Credit Rate | *9.00%* |
| = Annual Tax Credit | *585,000* |
| X 10 years | *10* |
| = Total Tax Credits | *5,850,000* |
| X Tax Credit Factor *(price)* | |
| = Investor Equity | |

# Tax Credit Factor

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

# Equity from Investor

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

# Example

| | |
|---|---|
| Eligible Basis | $5,000,000 |
| X High Cost Adjustment | 130% |
| = Adjusted Eligible Basis | 6,500,000 |
| X Applicable Fraction | 100% |
| = Qualified Basis | 6,500,000 |
| X Tax Credit Rate | 9.00% |
| = Annual Tax Credit | 585,000 |
| X 10 years | 10 |
| = Total Tax Credits | 5,850,000 |
| X Tax Credit Factor *(price)* | $1.02 |
| = Investor Equity | $5,967,000 |

## 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

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

- % of project used as affordable housing
- Actual tax credit rate
- Sources of funds (tainted money)
- Threshold basis limits

# Threshold Basis Limits

- TCAC's method of cost control
- Starting in 2008, 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

# Threshold Basis Limits (cont.)

- Upward adjustments in certain cases:
  - Prevailing Wage/Davis Bacon (20%)
  - Parking constructed beneath building (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%)

## Threshold Basis Limits (cont.)

- Other upward adjustments
  - Development Impact Fees
    - Add amount of fees to basis limit
      - Park, school, flood control fees, etc.
    - <u>Does not include permit & plan check fees</u>
  - Environmental mitigation & seismic upgrading: lesser of 15% *OR* actual cost

## Threshold Basis Limits (cont.)

- Boosts for 4%/Bond Projects w/55 year affordability
  - 1% for each 1% of units targeted between 36% & 50% AMI
  - 2% for each 1% of units targeted ≤ 35% AMI

# Example

| | |
|---|---|
| Eligible Basis | $5,000,000 |
| Threshold Basis Limit | $4,500,000 |
| *** Lesser of Two Above* | $4,500,000 |
| X High Cost Adjustment | 130% |
| = Adjusted Eligible Basis | 5,850,000 |
| X Applicable Fraction | 100% |
| = Qualified Basis | 5,850,000 |
| X Tax Credit Rate | 9.00% |
| = Annual Tax Credit | 526,500 |
| X 10 years | 10 |
| = Total Tax Credits | 5,265,000 |
| X Tax Credit Factor *(price)* | $1.02 |
| = Investor Equity | $5,370,300 |

# Tax Credits 101

Types of Credits

## 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)*

## Monthly Credit Rate Changes

- IRS publishes credit rates monthly
  - Use 9% rate for projects PIS prior to 12/31/13 (only acq/rehabs)
- Formula based on AFR (derived from T-Bills)
- Credit rate available online

http://www.novoco.com/low_income_housing/facts_figures/

# Credit Rate: 12-Month History

- 9% credit – 7.42% to 7.78%
- 4% credit – 3.18% to 3.33%
- Rate set prior to **OR** at completion (PIS)
  - If prior to…
    - Carryover Allocation (9% projects)
    - Month of Bond Issuance (4% projects)

# 9% vs. 4% Credits

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

## 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 & equity
  - Not reduced by federal subsidies

## Credit Rates & Project Type

- New Construction
- Acquisition/Rehabilitation

# New Construction

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

# 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)

## 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)

## Substantial Rehabilitation

### Federal Requirement

Rehab-related expenditures are GREATER OF:

- $6,000 per tax credit unit (to be adjusted for inflation annually after 2010); OR
- 20% of acquisition basis (i.e., cost of building + related costs excluding land)

Note: TCAC and CDLAC impose additional rehab expenditure requirements

## Credit Rates & Types of Project Funding

- Certain funds can trigger use of 4% credit rate:
  - Tax-exempt bonds
  - Certain federal grants

## Credit Rates & Types of Project Funding (cont.)

- If using “tainted” Federal grants, depend on experienced professional to structure financing
  - Otherwise, risk having 9% tax credit rate reduced to 4%

# CA State Tax Credits

- California program augments Federal credits
  - Cannot be used alone
  - Orig. for projects ineligible for 130% boost
  - Now available by request
- Eligibility (any of criteria below)
  - Not located in DDA or QCT, or
  - Applicant's election

# 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

# CA State Tax Credits (cont.)

- Calculating
  - 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

# CA State Tax Credits (cont.)

Example:

| | |
|---|---|
| Qualified Basis Amount | 1,000,000 |
| State Credit Rate | x 30% |
| Total State Credit | 300,000 |
| | |
| Qualified Basis Amount | 1,000,000 |
| Federal Credit Rate | x 9% |
| Annual Credit (Yrs 1-3) | 90,000 |
| For 3 years | x 3 |
| Total for first 3 years | 270,000 |
| Total State Credit (from Above) | 300,000 |
| Remaining Credit for year 4 | 30,000 |

# Tax Credits 101

Ownership Structure & Responsibilities

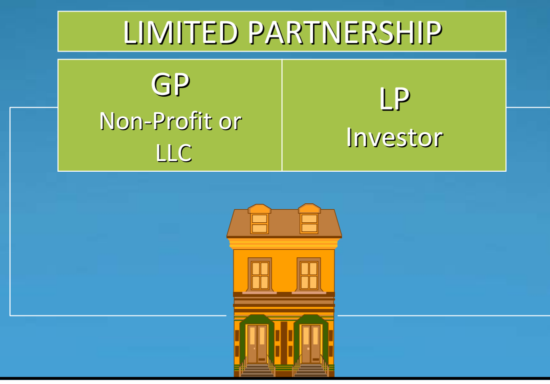
# Ownership Structure

LIMITED PARTNERSHIP

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

# Ownership Diagram

- Equity flows to project
- Tax Benefits flow to LP




## 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

## GP

- Unlimited liability (except non-recourse debt)
- Often develops the project
- Receives fees for services (e.g., developer fee, partnership management fee)

## LP

- Liabilities limited to equity investment
- No role in development
- Syndicator will receive fees; net equity pay-in takes these fees into account. May charge asset mgt fee

## GP

- May receive more than prorata share of cash flow, sales proceeds, and other benefits
- Provides guarantees

## LP

- Not usually motivated by cash flow or sales proceeds, only tax benefits
- Require guarantees

## Who are Investors?

- Investors are corporations or pools of corporations
- Direct Investors
  - Union Bank, US Bank, BofA, Wells Fargo
- Non-profit Syndicators
  - National Equity Fund, Enterprise Social Investment Corporation, Merritt Community Capital
- For-profit Syndicators
  - Alliant, Raymond James, Redstone, RBC, Hudson Housing Capital, Boston Financial, Centerline

## 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

# Tax Credits 101

Obtaining an Allocation

## Allocating Agency

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

## 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
  - California Credit
  - Limited amount of credit, must compete

## 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

# 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

# TCAC Underwriting & Feasibility Criteria

- Developer fee limits
  - Generally limited to lesser of
    - Up to $2,000,000 (up to $1.4M allowed in basis) for competitive or $2,500,000 for non-competitive
    - Up to 15% construction basis + 5% acq. basis
- Construction contract limits
  - General Conditions + Overhead & Profit cannot exceed 14% of construction cost *(excluding insurance)*
- Minimum operating expenses
  - Matrix of housing type, location, elevator/non-elevator

## 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

## 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
  - 10% SROs and Special Needs
- Loan Terms
  - Rate, term, DCR supported
  - Minimum DCR = 1.15 (can be less if HUD, CalHFA, or RHS loan)

# 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 necessary to maintain feasibility for 15 years
- Residential vs. commercial income/expenses
  - Each must be independent

# 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 $10,000 hard cost per unit

# 9% Credits (Competitive Allocations)

- Additional threshold requirements
- The allocation system
- 2012 point system & tie breakers
- Fees and timeline

# 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
- $20,000 minimum rehab cost
  - $10,000 for at-risk projects

## Additional Threshold Requirements (cont.)

- Must be one of five housing types:
  - **Large Family**—at least 30% three bedroom or larger units
  - **SRO**—average targeted income 40% AMI or below, 90% of units cannot have separate bedrooms
  - **Special Needs**—average targeted income 40% AMI or below, at least 50% of units need to serve a special needs population

## Additional Threshold Requirements (cont.)

  - **Senior**—all units restricted to seniors (55+)
  - **At-Risk**—existing federally subsidized project at risk of converting to market rate
- Housing types have additional requirements
  - Required amenities
  - Unit sizes
  - Tenant services
  - Leveraging

# The Allocation System

- **Housing type goals**
  - **Large Family 65%**
  - **SRO 15%**
  - **At-Risk 5%**
  - **Special Needs 15%**
  - **Senior 15%**

# The Allocation System (cont.)

- Set-Asides*
  - Non-Profit (priority to homeless) 10%
  - Rural** 20%
  - At-Risk 5%
  - Special Needs/SRO 4%
  - Credit holdback 3%

  **Total 42%**

** The Set-Asides do not count against Geographic Apportionments*

***Rural may <u>not</u> compete in other Geographic Areas or Set-Asides (unless applying in At-Risk set aside)*

# The Allocation System (cont.)

- Geographic Apportionments (by County)
  - Los Angeles County 33%
  - Central Region 10%
  - North & East Bay Region 10%
  - San Diego County 10%
  - Inland Empire Region 8%
  - Orange County 8%
  - South & West Bay Region 6%
  - Capital & Northern Region 6%
  - Central Coast Region 5%
  - San Francisco County 4%

# 2012 Point System

| CATEGORY | POINTS | NOTES |
|---|---|---|
| 1 a) Cost Efficiency | 20 | Combined, up to 20 points for 3 categories |
| 1 b) Credit Reduction | | |
| 1 c) Public Funds | | |
| 2 Experience | 9 | GP - 6 pts, Mgmt. Co. - 3 pts. |
| 3 Housing Needs | 10 | Must meet a housing type |
| 4 a) Site Amenities | 15 | 1-7 pts. per site amenity |
| 4 b) Service Amenities | 10 | 5 pts. per service amenity |
| 5 Sustainable Building Methods | 10 | LEED/Green Comm./Green Point |
| 6 Lowest Income | 52 | 10%@30% AMI to receive full pts. |
| 7 Readiness to Proceed | 20 | |
| 8 Misc. Fed/State Policies | 2 | 1-2 pts. per item |
| MAXIMUM TOTAL POINTS | 148 | |

# Tie Breakers

- 1st - Housing type
  - Next project with same score but unmet housing type
- 2nd - Sum of following two ratios:
  - Committed Permanent Public Funds/TDC
  - [One minus (Unadjusted Eligible Basis/TDC)] divided by three
  - Highest ratio wins

# High Cost Projects

- High Cost if project's eligible basis exceeds adjusted Threshold Basis Limit by 30%
- Next steps
  - High Cost projects not recommended for an allocation
  - Sponsor may appeal to CTCAC at a public hearing with local funding representative
  - Must justify reasons for high cost
  - Explain why an allocation would be sound public policy

# TCAC Fees for 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

# Allocation Timeline

- Assess tax credit feasibility/assemble <u>experienced</u> development team
- Obtain a reservation of tax credits in year 1
  - Pay TCAC app. fee & reservation fee
- Select investor & form final limited partnership
- Submit investor Letter of Interest (LOI) within 90 days if full "Readiness to Proceed" points received

## Allocation Timeline (cont.)

- Close construction financing within 180 days if full "Readiness to Proceed" points received
- Carryover allocation: 10% test within 1 year of carryover
  - Pay TCAC Allocation Fee
- Obtain C of O by the end of year 3 (2nd year following year of reservation)
- Rent up project on schedule to meet commitment to investor

## 9% Tax Credit Timeline

Application

2 rounds per year; typically 60 days for review and scoring

Preliminary Reservation

180 days from PR date to meet all readiness requirements or credits will be returned

Readiness Closing Deadline

Must PIS by 12/31 of the 2nd year following the PR and carryover allocation

Placed in Service

File with TCAC within 1 year of the final building's PIS date or receive negative points

PIS app (8609 request)

# Application

- Competitive application
  - 2 rounds per year usually around
    - March
    - July
  - Non-competitive allocations must still submit application
  - App's considered at monthly meetings
  - CDLAC application must be submitted first or concurrent

# Preliminary Reservation

- Awarded 2-3 months after application
- Within 20 days of award, <u>performance deposit</u> (allocation fee for 4% applications) due
  - If competitively awarded: 4% of annual federal credit reserved
  - Bond projects: 1% of federal credit reserved
  - Potentially refundable (allocation fee not refundable)

# 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 1 year of the carryover date, i.e., by October of year following preliminary reservation

# 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

## Placed in Service (cont.)

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

## Timeline and Fees: Differences for 4% (Non-Competitive) Apps

- Allocations made monthly
- Reservation fee is 1% of annual credit, no performance deposit
- No carryover requirement
- No 180 day readiness requirement, but will have bond closing deadline, which is 90-130 days from CDLAC award
- No placed in service deadline requirement, but must submit PIS package to TCAC within 1 year of the final building PIS date

# Tax Credits 101

Planning for a TCAC Application

## Planning Ahead for a Tax Credit Application

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

## Planning Ahead for Application Requirements

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

## Planning Ahead for Competitiveness

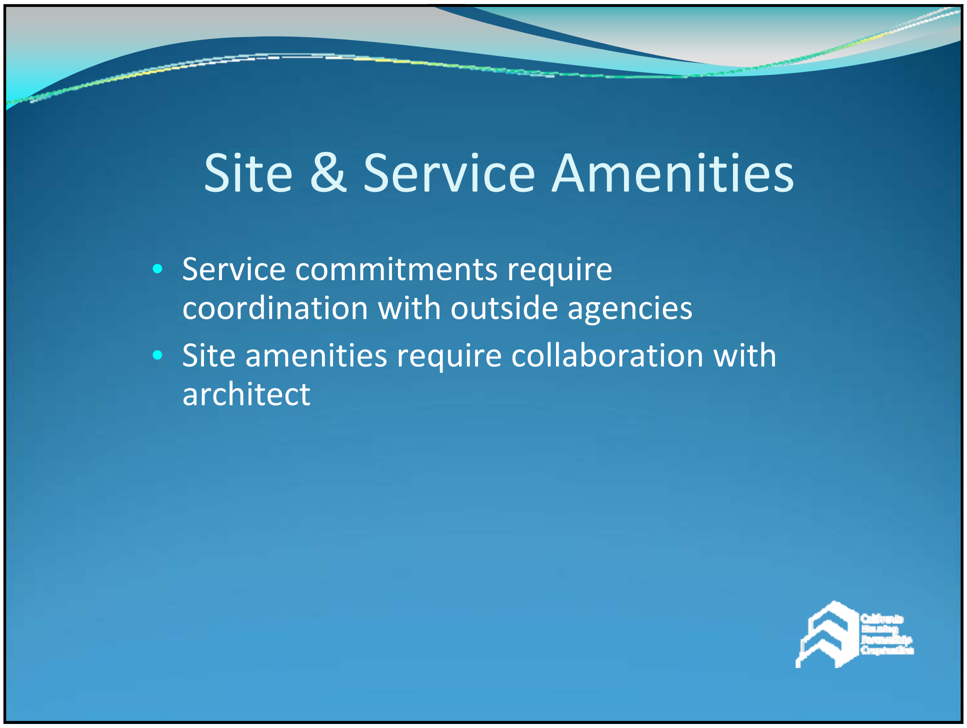
- Point categories that require advanced planning:
  - Readiness to Proceed
  - Sustainable Building Methods
  - Site & Service Amenities

## 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)
  - Design review approval
- Must commence construction within 180 days of reservation

## Sustainable Building Methods

- Requires architect's involvement


Site & Service Amenities
• Service commitments require coordination with outside agencies
• Site amenities require collaboration with architect