

California Tax Credit Allocation Committee Low Income Housing Tax Credits

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LOW INCOME HOUSING TAX CREDIT

- **Created by the Tax Reform Act of 1986**
 - **Section 42 of the Internal Revenue Code**
- **Governed by the Internal Revenue Service (IRS)**
- **Administered by State Agencies**

Low Income Housing Tax Credits (LIHTC)

- To encourage private investment in affordable housing
- Nations most important tool in Affordable Rental Housing Development
- **Tax Credit – not a tax deduction**



Basic Requirements

LIHTC Projects Must:

- Be a residential rental property
- Commit to Low Income Occupancy
- Restrict Rents
- Operate as an affordable project for 55 years

Income Restrictions

Minimum Set-A-Sides – Federal Requirement:

- 40% units at 60% of Area Median Income (AMI)
- or
- 20% units at 50% of Area Median Income (AMI)

HOWEVER

- Credits are awarded based on Income restricted units. **(typically 100% low income)**

Rent Restrictions

Rents are restricted by income group, bedroom size and Area Median Income (AMI)

Example of 2013 rents:

Riverside County

2 Bedroom

30% AMI

\$430

50% AMI

\$717

60% AMI

\$861

Qualified Allocation Plan (QAP)

- Each State is required to have a QAP
- Outlines State Priorities & cites State Regulations
- www.treasurer.ca.gov/ctcac

Federal Low Income Housing Tax Credits

- **Two Types of Federal Credits:**
 - The 9% Credit
 - The 4% Credit
- **Current Credit factors:**
7.63% (9%) & 3.27% (4%)

Low Income Housing Tax Credit Uses



- 9%: New Construction
Rehabilitation
- 4%: Acquisition
New Construction
Rehabilitation

California's 9% Federal Tax Credit Allocation

➤ **\$2.25 Per Capita**



➤ **2013 Estimate: \$85.5 million (9% credits)**

Federal Low Income Housing Tax Credit Equity

- Developer sells the right to take credits to investors (for 10 years)
- In last round 2013:
 - .89 cents to \$1.14 (per \$1 of tax credit)

State Policy Priorities Set-a-Sides & Apportionments

- **Non-Profit set-a-side** **10%**
 - Homeless Assistance Priority
- **Rural set-a-side** **20%**

Set-a-Sides & Apportionments

- “At-Risk” set-a-side 5%
- Special Needs 4%
- Supplemental set-a-side 3%
 - for overages in set-a-sides & geographic regions

Geographic Apportionments



- City of Los Angeles 17.6%
- Los Angeles County 17.2%
- Central 8.6%
 - Fresno, Kern, Kings, Madera, San Joaquin, Stanislaus, Tulare
- North & East Bay 10.8%
 - Alameda, Contra Costa, Marin, Napa, Solano, Sonoma

Geographic Apportionments



- San Diego County 8.6%
- **Inland Empire** 8.3%
 - **San Bernardino, Riverside, Imperial (\$7m)**
- Orange County 7.3%
- San Mateo & Santa Clara Co. 6%

Geographic Apportionments



- Capital/Northern Area 6.7%
 - Butte, El Dorado, Placer, Sacramento, Shasta, Sutter, Yuba, Yolo
- Coastal California 5.2%
 - Monterey, San Luis Obispo, Santa Barbara, Santa Cruz, Ventura
- San Francisco County 3.7%

9% Federal Low Income Housing Tax Credits

- Competitive application process
 - **Threshold and Point system**
- \$2 million application limit
- Credit taken each year for 10 years
 - \$2 million award = \$20 million

9% Federal Low Income Housing Tax Credits

- 2 funding rounds per year
- 2014 Deadlines:
 - March 5, 2014
 - July 1, 2014

9% Tax Credit - Point System

- Amenities
- Experience
- Lowest income targeting
- Leveraging
- Sustainable building methods
- Readiness to proceed

Threshold items (examples)

- Site control
- Zoning
- Financing commitments
- Minimum construction standards
- Housing type
 - Large family, senior, SRO, Special needs, At-Risk

Experience needed

- **Experience with at least 3 LIHTC projects**
 - If not
- **Partner with an experienced developer and management company**

2013 9% Competition Results

- 190 Applications
- 85 total awards
 - 45% of applicants successful
- average project size: 62 units
- average total project cost: \$18 million
- average 9% award: \$1 million
- average public funds: \$5.4 million

2013 Inland Empire Awards

- 1st Round:
 - 3 Large family projects

- 2nd Round:
 - 1 Special Needs
 - 1 Large family

Calculations of Tax Credits/Equity

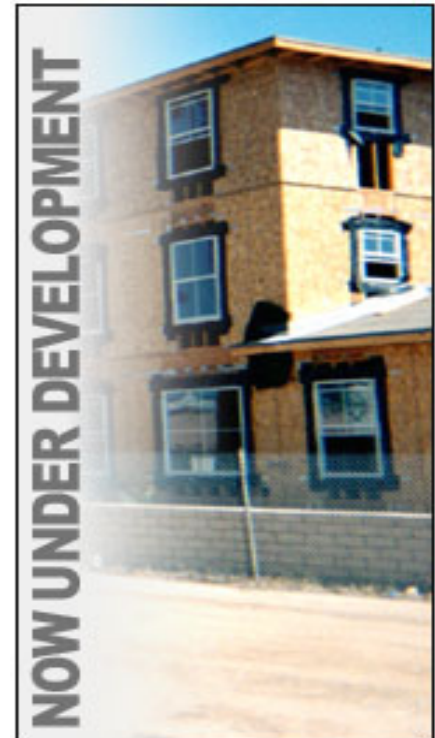
Total Development Cost	\$18,000,000
Less: Non-eligible (land/soft cost)	<u>(2,000,000)</u>
Eligible Basis	\$16,000,000
Applicable fraction (% of LIHTC units)	<u>X 100%</u>
Qualified Basis	\$16,000,000
Tax Credit Applicable %	<u>X 7.6%</u>
Annual Tax Credit	\$ 1,216,000
Tax Credit Period	<u>X 10 yrs.</u>
	\$12,160,000

Calculating the Amount of Credit

	\$12,160,000
Equity at \$.90 per Credit	X <u> .90</u>
	\$10,944,000
Total Development Cost	\$18,000,000
Less: Equity	<u>(10,944,000)</u>
Required Debt (gap)	\$ 7,056,000

9% Low Income Housing Tax Credits

- Typically, Tax Credits will pay for 50% to 60% of the project costs.
- Other financing could include:
 - Government agency dollars
 - Banks



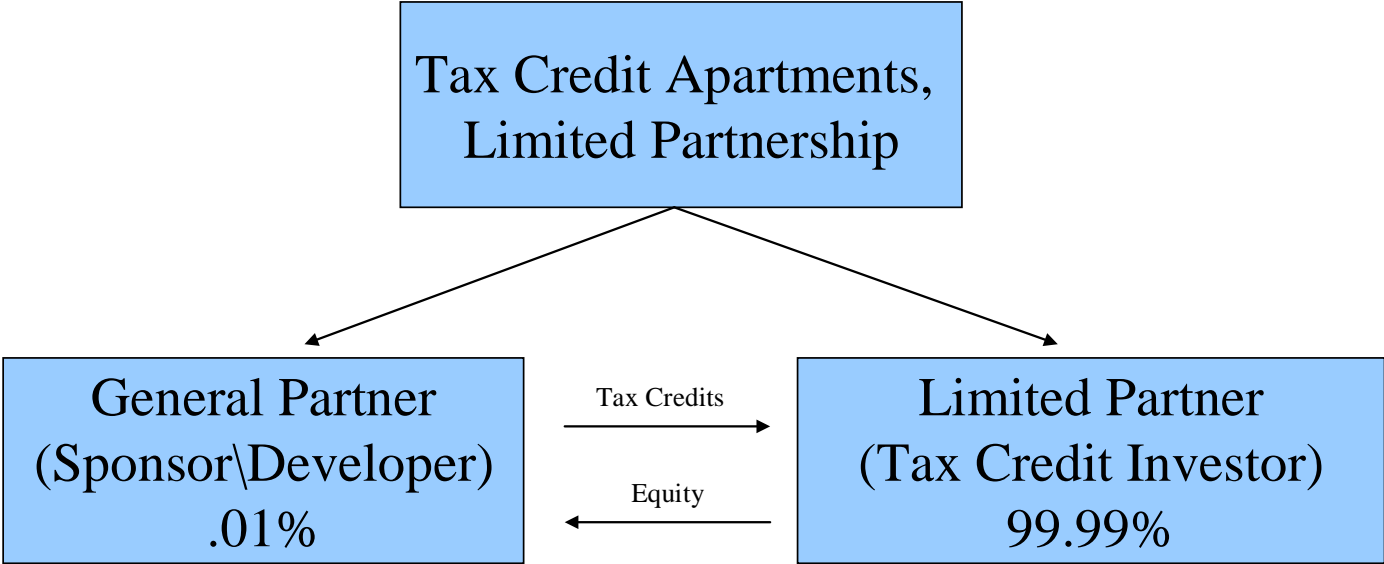
4% Federal Low Income Housing Tax Credits

- **Non-competitive**
- **Total available limited by Tax Exempt Bond Authority**
- **Can apply “Over-the-Counter”**
- **10% Unit @ 50% AMI**

State Tax Credits

- Available in combination with Federal 9% or 4% Tax Credits
- Credit for 4 years
- Approximately \$89 million available (4 year total * not an annual amount)
- **Apply for in the competitive 9% rounds**

Ownership Structure



Tax Credit Syndication

- Syndication companies sell primarily to institutional investors
 - Banks, insurance companies
- Syndicator conducts partnership negotiations on behalf of the Fund.