

CDFA: Intro Tax Credit Financing

November 6 - 7, 2011

“Tax Credits in Combination with Other Tools”

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Real Estate Challenge

Development Costs > FMV

- Debt and Equity are functions of Fair Market Value (FMV)
- If development costs exceed FMV
 - ▣ conventional debt and equity will not be sufficient to cover development costs
- There will be a funding **Financing GAP**

Filling Gap

- ▣ Reduce Development Cost (Uses of Funds)
 - Bargain Sale
 - Change Development Program
 - Value Engineering
- ▣ Raise other source of funding (Sources of Funds)
 - **Equity raised through state and federal tax credits**
 - Subordinated debt
 - Tax abatements that increase borrowing capacity
 - Monetize tax increment to cover infrastructure costs
 - Secure Grants (less common)

Tax Credits

- **LIHTC**
 - Federal
 - 9%
 - 4% with tax exempt private activity bonds
 - State (some, not all)
- **Rehabilitation (Historic) Tax Credits (RTC)**
 - Federal
 - 20% credit for historically significant buildings
 - 10% for buildings constructed prior to 1936
 - State (some, not all)
- **New Markets Tax Credits**
 - Federal
 - 39% spread over seven years
 - State (some, not all)

Tax Credits

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- ❑ To maximize equity off of the use of tax credits, option to use multiple tax credit programs in same development
 - ❑ LIHTC w Historic Tax Credits
 - ❑ LIHTC w NMTC
 - Only if condominiumize commercial piece
 - ❑ Historic Tax Credits w NMTC
- ❑ Look to maximize state credits, if necessary

LIHTC Considerations

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- **Programmatic/Eligibility**
 - ▣ 20% of units priced < 50% of AMI
 - ▣ 40% of units priced < 60% of AMI
- **Practical**
 - ▣ Will you get allocation? Very competitive
- **Political**
 - ▣ Will affordable draw support of community and elected officials?
 - ▣ 100% affordable/ Mixed income?
- **Financial**
 - ▣ What works best?
 - ▣ 100% affordable?
 - ▣ Mixed-income?

Historic Credit Considerations

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- Programmatic/Eligibility
 - ▣ National Register
 - ▣ Contributing Building
- Practical
 - ▣ Will equity exceed increase in costs?
 - Net benefit?
 - Can use state historic tax credit to supplement federal equity raise?
 - ▣ How long will it delay development process?

NMTC Considerations

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- Eligibility
 - ▣ In Qualified Census Tract?
 - ▣ Deep Distress?
- Practical
 - ▣ Are you likely to get allocation?
 - Community benefit story
 - Qualified Equity Investment
 - Too low? < \$5 million QEI
 - Too high? > \$20 million QEI
 - If higher than \$20 million, may need more than 3 CDEs
 - Do you have other sources of funds to “leverage”
- Financial
 - ▣ Will you net sufficient to justify effort?
 - ▣ Is there another way to structure w/o NMTC?

Examples

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Bijou Square #1		
Mixed-use 24,000 SF historic rehab in Bridgeport CT		
Project Cost	\$4,300,000	
FMV	<u>\$3,000,000</u>	
Gap	\$1,300,000	
Used to fill gap	NMTC and RTC	
Bijou Square #2		
Mixed-use, mixed-income new construction in Bridgeport CT		
Project Costs	\$25,000,000	
FMV	<u>\$14,000,000</u>	
Gap	\$11,000,000	
Used to fill gap	No tax credits	
Wyandanch Rising		
Mixed-use, mixed-income development, with community health center in Long Island		
Project Cost	\$49,000,000	
FMV	<u>\$27,000,000</u>	
Gap	\$22,000,000	
Used to fill Gap	LHTC	
Used for community health center	NMTC	

Bijou Square, Bridgeport CT



Market Transformative Development

- Adaptive Reuse
- Tenant mix
 - ▣ Restaurants
 - ▣ Professional offices
 - ▣ Cultural Space (movie house)
 - ▣ Open Space
- Historic buildings
- Recreating the market and creating a sense of place
- Working off asset base of downtown
 - ▣ Nearby Train Station
 - ▣ Downtown workforce
 - ▣ Underutilized Parking garage

Financial Imbalance

Bijou Square Phase I

USES OF FUNDS	\$4,300,000
SOURCES OF FUNDS	
Conventional Debt	\$2,300,000
Equity for Market Return	<u>\$700,000</u>
	\$3,000,000
GAP	(\$1,300,000)

2 Types of Tax Credits

Bijou Square

- Rehabilitation Tax Credit (RTC)
 - ▣ Historic Building
 - ▣ Historic District
- New Markets Tax Credits (NMTC)
 - ▣ In deeply distressed census tract
 - ▣ Commercial development
 - ▣ Used as basis to strengthen and re-establish market in CBD

Historic Tax Credit Investment

Historic Tax Credit Basis	\$2,400,000
Historic Tax Credit %	<u>20%</u>
Historic Tax Credit	\$480,000
Price/\$	<u>86%</u>
Equity Raised	\$410,400

NMTC Investment

Investor Investment	\$3,200,000
NMTC Value	<u>39%</u>
NMTC	\$1,248,000
Investor B Loan (Near Equity)	\$900,000
Investor A Loan	<u>\$2,300,000</u>
Total Citi Investment (QEI)	\$3,200,000
Citi Investment as a % of NMTC	\$900,000
NMTC	\$1,248,000
Citi Investment as a % of NMTC	72%

Gap Filling Summary

Gap	\$1,300,000
RTC Equity	(\$400,000)
NMTC Investment	<u>(\$900,000)</u>
New Gap	\$0

Bijou Square Completed

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Next Challenge: 323 Fairfield Ave.

Mixed-Use New Construction Next Door

- Initial Financial Structure
 - ▣ For-sale residential condos
 - ▣ Conventional Debt/Equity Split
 - ▣ to be “taken out” by residential sales proceeds and small long-term commercial mortgage on retail space
- Initial Lender pulled out
- Other “interested” lenders followed suit
- Difficult to access construction loan for residential condos
 - ▣ Virtually unavailable in marketplace
 - ▣ Lenders lost confidence in project’s ability to sell units
- As a result, convert development from for-sale to **rental**

Problem

- Original FMV as Condo = \$24 million
- Adjusted FMV as Rental = \$14 million
- Gap = \$11 million

- NMTC?
 - No, commercial income did not > 20%
- LIHTC?
 - Possibly
 - Opted not to use LIHTC
 - Did not want too much affordability
 - Timing
 - No assurance of getting competitive LIHTCs
 - Developer did not have experience with LIHTCs

Final Structure

USES OF FUNDS	22,576,255	
SOURCES OF FUNDS		
Developer Equity	3,000,000	13%
CHFA Mortgage (4% interest, 30 yrs)	12,000,000	53%
CDFI subordinated Mortgage	1,930,000	9%
City HOME	1,200,000	5%
State Gap Financing	2,200,000	10%
V/E Adjustments & A/R Reduction	<u>2,246,255</u>	<u>10%</u>
	22,576,255	100%

Bijou Square: Completed

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Wyandanch Rising Town of Babylon NY

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Wyandanch Rising Rendering

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Wyandanch Rising Town of Babylon NY

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- Transformative redevelopment
- Transit-oriented development
 - ▣ Work of community's greatest asset, train station
 - ▣ Improve land use
 - Currently used for non-revenue surface parking
- Model for suburban TOD mixed-use, mixed-income development
- Town of Babylon leadership
 - ▣ County Executive Steve Bellone
 - ▣ Former Town of Babylon Supervisor
- Investment (\$50 million) to incentivize development
 - ▣ Land Assembly
 - ▣ Land Use Approval
 - ▣ Funding of infrastructure
 - Sewer, Roads, and public plaza

Wyandanch Rising Town of Babylon NY

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- Three key issues Town of Babylon addressed
 - ▣ Site control
 - Assembled over 15 acres of land near train station
 - ▣ Infrastructure
 - Arranged funding for new sewers and public plaza
 - ▣ Land Use Approvals
 - Commissioned renowned planning and architectural firm to complete form based code and development plan

Development Program

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- Overall
 - ▣ \$300 million
 - ▣ Four phase over 10 years
 - ▣ 800 units of housing
 - ▣ 120,000 square feet of retail
 - ▣ Public Facilities
 - Plaza
 - Community Health Center

Phase I Development Program

- Mixed Use
 - ▣ 140 residential units
 - ▣ 40,000 SF Retail
 - ▣ Community Health Center
- Mixed-Income
 - ▣ 50% affordable (< 60% AMI)
 - ▣ 25% workforce (60 – 90% AM)
 - ▣ 25% market
- Development budget is @ \$69 million

Phase I Development

Program Considerations

- Mixed-Income
 - ▣ All affordable model would have easier from a financial structuring perspective
 - ▣ 100% affordable is not way to establish market
 - ▣ 100% affordable would have made it more difficult in order for Town to get return on land investment
- Mixed-Use
 - ▣ Retail is the more difficult piece for the development
 - ▣ Retail important for “place making”
 - ▣ Getting right tenants for 40,000 SF will be difficult, not impossible
 - Existing 20,000 SF strip center has been acquired and will be demolished

Phase I Rendering

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Residential Programming and Structuring Issues

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□ 9% and 4% Credits

▣ 9% is competitive

- State housing agency coordinates competitive round
 - Each states get @ \$2.20 per capita in LIHTC
- NY S Home and Community Renewal limits annual allocation to \$1.4 million (\$14 million over 10 years)

▣ 4% is “as of right”

- Need volume cap of private activity tax exempt bond
- Combine 4% LIHTC equity, private activity bonds and various subsidy sources

Residential Programming and Structuring Issues

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- 9%LIHTC for Building A (91 units)
- Equity Calculation (9% LIHTC is actually @ 7.2%)

Basis		32,800,000
Applicable Fraction (Residential)		93.03%
Applicable Fraction (Affordable)		58.24%
Basis		17,771,189
Tax Credit %		7.20%
Eligible Annual Credit		1,279,526
# years		10
Total Credits		12,795,256
Price/\$		1.10
LIHTC Equity		14,074,782

Residential Programming and Structuring Issues

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- 4% LIHTC for Building B (50 units)
- Equity Calculation (4% LIHTC is actually @ 3.2%)

Basis		28,679,876
Applicable Fraction (Residential)		90.09%
Applicable Fraction (Affordable)		60.47%
Basis		15,622,957
Basis Boost for Qualified Census Tract		1.3
Basis		20,309,844
Tax Credit %		3.25%
Eligible Annual Credit		660,070
# years		10
Total Credits		6,600,699
Price/\$		1.05
LIHTC Equity		6,930,734

State Tax Credit Determination

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Annual State Housing Credit	\$750,000
# Years	10
Total State Housign Tax Credit	\$7,500,000
Price/\$	0.65
State Housing Credit Equity	\$4,875,000

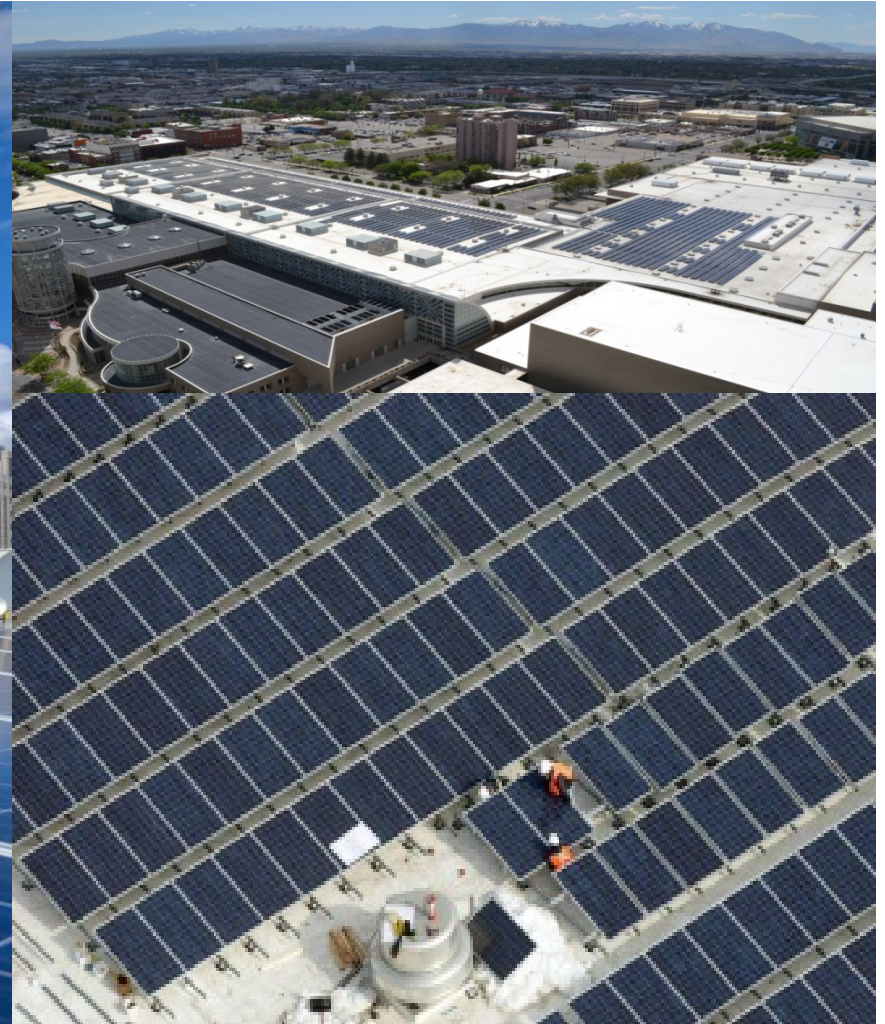
Phase I Rental Mixed-Use Sources of Funds

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	Building A 9% LIHTC	Building B 4% LIHTC	TOTAL
PERMANENT SOURCES OF FUNDS			
1st Mortgage	14,096,946	12,562,954	26,659,900
Federal LIHTC Equity	12,826,000	6,930,734	19,756,734
NYS Housing Tax Credit (SLIHC) Equity	4,875,000	3,250,000	8,125,000
NYS Housing Trust Fund (HTF)	1,908,000	0	1,908,000
NYS Homes for Working Families	0	1,560,000	1,560,000
Suffolk County/Town HOME	330,000	0	330,000
Federal Home Loan Bank (FHLB) AHP	965,000	1,020,000	1,985,000
Suffolk County Infrastructure Fund	1,450,244	2,108,825	3,559,069
Developer Equity	1,200,000	2,000,000	3,200,000
Deferred Developer Fee	<u>3,260,071</u>	<u>(1,834,082)</u>	<u>1,425,989</u>
TOTAL	40,911,261	27,598,431	68,509,692

Salt Plaza Convention Center Solar Project (Salt Lake City, UT)

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Salt Palace Solar Capital Stack

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- **Federal Resources**
 - ▣ **Federal Earmark**
 - ▣ **ARRA bonds**
 - ▣ **1603 Grant-in-lieu-of Investment Tax Credit**
- **NMTC**
 - ▣ **NMTC investor investment by leveraging above funds**

Salt Lake Solar Funding Impact

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\$ 6,663,540

Total Facility Budget

\$ 3,698,279 (56%)

Initial County Funds Available

- Federal Funds
- QECB Financing

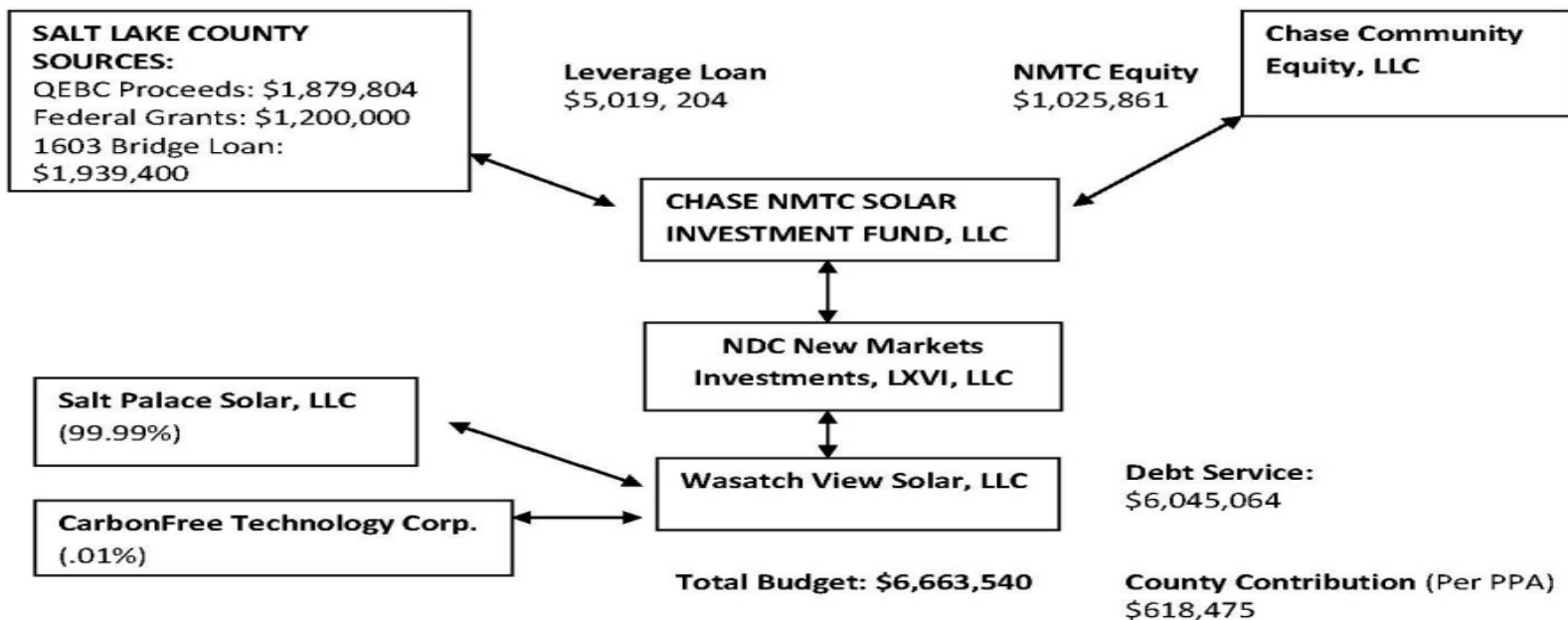
\$ 2,965,261 (44%)

**Budget INCREASE Due to
Financing Structure to Bring
1603 Grant in-lieu
and NMTC Equity**

Salt Lake County Solar Project Funding Impact

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SALT LAKE SOLAR – Flow of Finances



Questions and Answers