Advanced Project Financing Options

Low Income Housing Tax Credits

What Qualifies for the Credit?

A qualified low-income building:

- Must have sufficient *low-income* tenant occupancy
- Must charge those tenants *restricted rents*
- Must be available to the *general public*
- Must be used on a *non-transient* basis

Eligible Basis

- Eligible basis can only include the depreciable residential parts of a building
- Includes any common residential areas
- Excludes:
  - Land, amortized, or expensed costs
  - Costs funded with federal grants
  - Commercial space

Qualified Basis

- *Qualified Basis*
  = Eligible Basis × *Applicable Percentage*
- Applicable Percentage
  - The ratio of low-income occupancy to total occupancy
  - (Use the lower of the unit or floor space ratios)

Credit Percentages

- "9%" credit:
  - New construction or rehabilitation *without including most federal subsidies*
- "4%" credit:
  - Acquisition of existing buildings
  - Buildings *with most federal subsidies*
- Actual percentages vary monthly

Federal Subsidies

- Most below-market federal loans are considered subsidized
- Funds from tax-exempt bonds are always tainted
- Exceptions include:
  - Loans from CDBG funds
  - Some loans from HOME funds

Calculating Tax Credits

- Annual tax credits are a function of *qualified basis*, *tax credit percentage*, and *applicable percentage.*
- Credits = Basis × credit% × low-income%
- Special rules apply to:
  - First year of the credit period
  - Increases in qualified basis

Income Restrictions

- Based on HUD median incomes for the county or metropolitan area
  - HUD adjusts for high or low housing costs
  - Rural counties can use state rural medians
- To get 50% limits, start with the HUD very-low-income limit for the right household size
  - Multiply by 1.20 for 60% limits

Rent Restrictions

- Maximum gross rent is 30% of maximum monthly income for a unit
  - For allocations after 1989:
    - 1.5 persons/bedroom
    - 1 person in a studio (“0 bedroom”)
  - Most older allocations: actual household size
- Must deduct an allowance for tenant-paid utilities

Compliance Period

- Qualified buildings must continuously meet requirements over *15 years*
- Buildings earn credits over *10 years*
- IRS can recapture up to 1/3 of credits
- Extended-use agreements must continue restrictions for another 15 years

Sample

FINAL COST CERTIFICATION

12/31/20XX

	Total
Total Depreciable Costs (Eligible Basis)	$1,911,580
Less: Costs Incurred in 2004 related to Buildings Placed in Service in 2003	(12,803)
Total Depreciable Residential Costs	$1,898,777
Less: 20% Historic Rehabilitation Credit Basis Reduction	0
Less: Nonqualified Financing Sources	0
Subtotal: Eligible Low Income Credit Basis	$1,898,777
Qualified Low Income Occupancy Percentage	100.00%
Hard to Develop Percentage	130.00%
Qualified Low Income Housing Tax Credit Basis	2,468,411
Low Income Housing Tax Credit Rate	
Low Income Housing Tax Credit	$197,720
Maximum Allowable Credit	$197,295

Sample

FINAL COST CERTIFICATION
12/31/20XX

APPLICATIONS	Land	Building Shell	Rehabilitation/ Construction Costs	Amortized & Expensed Costs	Non-Deductible Costs	Total
Acquisition: Land	75,000	$0	$0	$0	$0	$75,000
Acquisition: Building	0	0	0	0	0	0
SUBTOTAL ACQUISITION	75,000	0	0	0	0	75,000
Base Construction Contract	0	0	1,180,000		0	1,180,000
Additional Improvements	0		237,889		0	237,889
SUBTOTAL CONSTRUCTION	0	0	1,417,889		0	1,417,889
General Development Costs						
Architecture and Engineering	0	0	96,392			96,392
Environmental Engineer	2,850	0	0	0		2,850
Construction Inspection	0	0	20,000			20,000
Consultant			0	0	80,000	80,000
Furniture and Equipment			28,307			28,307
Survey	9,700		0			9,700
Insurance			8,677			8,677
Market Study/Appraisal			0	4,500		4,500
Interest on LFCHA Loans			5,122			5,122
Legal			112,663	4,728	60,000	177,391
Title and Recording			5,645			5,645
Cost Certification			0	9,750		9,750
Tax Credit Fee			0	9,865		9,865
Marketing and Rent-Up				17,348		17,348
Replacement Reserve					6,391	6,391
Annual Contributions Contract Reserve					72,000	72,000
Operating Reserve					25,500	25,500
SUBTOTAL GENERAL DEVELOPMENT COSTS	12,550	0	276,806	46,191	243,891	579,438
Developer Overhead	0	0		0	0	0
Development Fee	0	0	216,885	0	0	216,885
TOTAL APPLICATIONS OF FUNDS	$87,550	$0	$1,911,580	$46,191	$243,891	$2,289,212

SOURCES	
Limited Member Capital Contributions	$ 1,579,900
First Mortgage	680,000
Accrued Interest	5,122
Deferred Development Fee	24,190
TOTAL SOURCES OF FUNDS	$2,289,212

Tax-Exempt Rental Housing Bonds

Overview

- 3 Types of Multi-Family Housing Bonds
- Players in a Tax-Exempt Bond Transaction
- Combining with LIHTC
- Good Costs/Bad Costs and Other Operating Rules
- Pros and Cons

Multi-Family Housing Bonds

- Governmental Bonds
  - Housing owned by governmental entities
- 501(c)(3) Bonds
  - Housing owned by not-for-profits
  - Specific rules on qualifying properties
  - Used in combination with other subsidies
    - Lower interest rate
    - Real estate tax exemption
    - Home funds?
    - Other grants?

Multi-Family Housing Bonds

- Private Activity Bonds
  - Bonds issued by governmental entity (the issuer)
  - They finance a private activity
  - Restrictions on eligible activities
    - Multifamily rental
    - Industrial development
    - Solid waste disposal
    - Pollution control
    - Single family housing

Players

- Issuers
  - Bond Counsel
  - Financial Adviser
- Underwriter/Remarketer
  - Underwriter counsel
- Developer
  - Developer counsel
- Credit Enhancer
  - Credit enhancer counsel
- Rating Agency
- Trustee

Good & Bad Costs/Other

- 95% for good costs
  - Land
  - Building
- Limit
  - 5% for bad costs
- Limit of 2% for cost of issuance of bonds
  - Underwriting
  - Discounts
  - Rating agency charges
  - Attorney fees

Good & Bad Costs/Other

- Less than 25% for purchase of land
- Inducement resolution
  - Within 60 days of incurring a cost, must declare its intent to reimburse costs
- TEFRA hearing
  - Public comment opportunity
  - Public approval

Conclusion

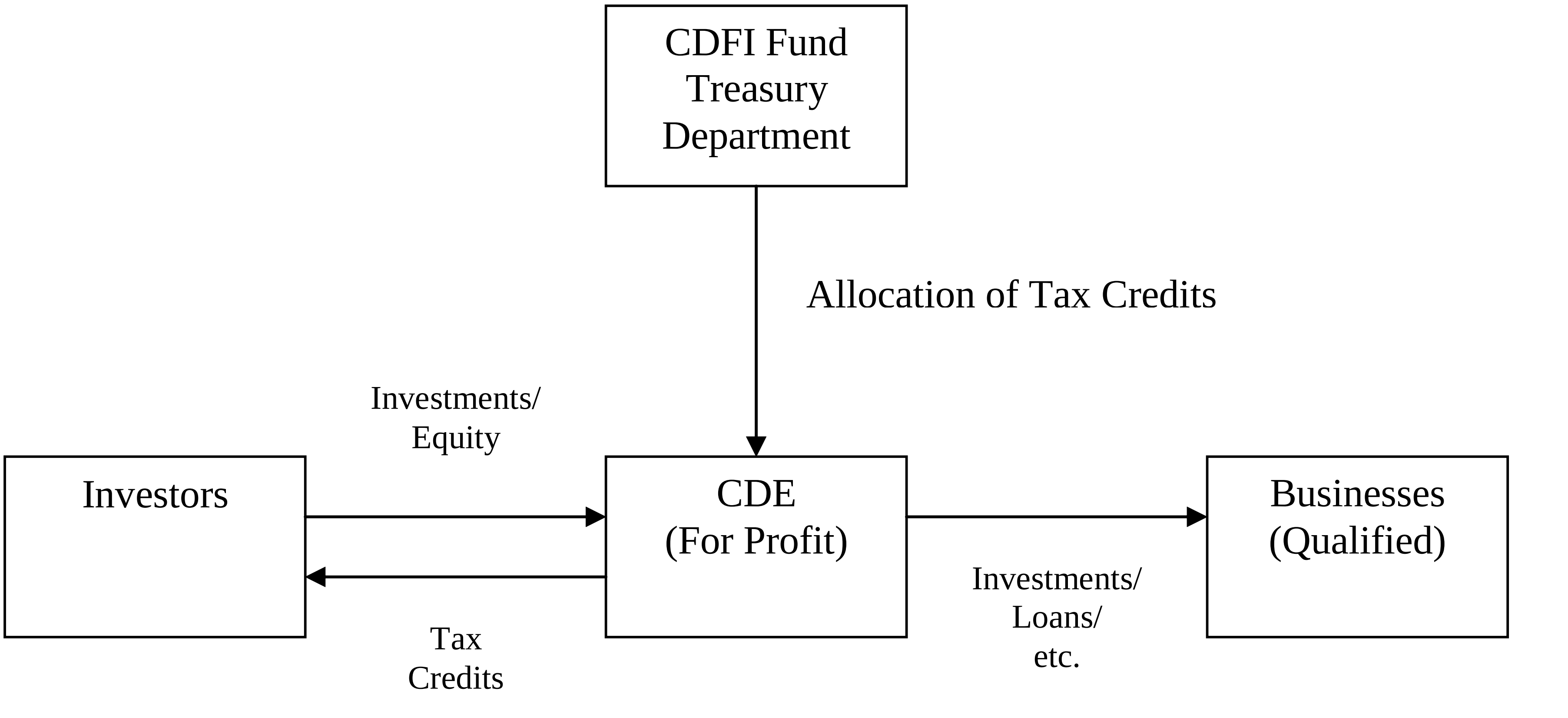
- Pros
  - Tax exempt bonds less competitive/brings not-so-automatic credits
  - Lower interest rate/More debt proceeds
- Cons
  - Less tax credit equity – lower credit percentage
  - Transaction costs

Conclusion

- Ideal projects
  - Acquisition/Rehabilitation
    - Less Tax Credit Equity Loss
  - Mixed income
    - Low financing on entire project

New Market Tax Credits

How Does the NMTC Work?



OVERVIEW OF NMTC PROGRAM

- Enacted on December 21, 2000
- Part of the Community Renewal Tax Relief Act of 2000
- Creates a tax credit for qualified equity investments (“QEIs”) in Community Development Entities (“CDEs”)

PROCESS OVERVIEW

Step 1: Entities apply to the Fund for CDE certification

Step 2: Entities apply to the Fund for an NMTC allocation

Step 3: The Fund competitively selects CDEs to receive NMTC allocations

Step 4: CDEs use allocations to offer NMTCs to investors for cash

Step 5: CDEs use proceeds to make Qualified Low-Income Community Investments (QLICIs)

AMOUNT OF NMTC INVESTMENT AUTHORITY AVAILABLE

2001	$	1.0 billion
2002	$	1.5 billion
2003	$	1.5 billion
2004	$	2.0 billion
2005	$	2.0 billion
2006	$	3.5 billion
2007	$	3.5 billion
Total	$	15.0 billion

Unallocated investment authority may be carried over from year to year until 2014.

CREDIT AMOUNT

- Equals 39% of amount of original investment
- Invest $100 and Receive $39 Tax Credit
- Credit taken over a 7-year period
- Credit rate:
  - 5% in each of the first 3 years
  - 6% in each of the final 4 years

WHAT IS A CDE?

- A domestic corporation or partnership
- Must be certified by the Fund
- CDEs are required to demonstrate that they:
  - Have a primary **mission** of serving, or providing investment capital for, Low-Income Communities (“LICs”) or Low-Income Persons
  - Are **accountable** to residents of the LICs that they serve

TIMING OF INVESTMENTS

- CDEs must offer NMTCs to investors within <u>5 years</u> of receiving an allocation
- CDEs have <u>12 months</u> to invest "substantially all" (generally 85%) of their QEI proceeds into QLICIs
- Generally, CDEs that receive returns of capital will have <u>12 months</u> to reinvest those funds in QLICIs
  - Reinvestment is not required in the final year of the 7-year credit period

QUALIFIED EQUITY INVESTMENTS

- Qualified Equity Investments (QEI)
  - Requirements:
    - Equity investment in a CDE;
    - Either stock or capital interest;
    - Acquired at original issue solely in exchange for cash;
    - Substantially all of such cash must be invested in QLICIs; and
    - Designated by CDE as a QEI and reported to CDFI Fund.

WHAT IS "LOW-INCOME?"

- Census tracts where:
  - Poverty rate equals or exceeds 20%, _*OR*_
  - Median income is below 80% of the greater of:
    - Statewide median income or
    - Metropolitan area median income
  - "Targeted Populations"
  - Census tracts with less than 2,000 people that are contiguous to a Low Income Community and within an empowerment zone
  - High migration rural counties (use 85% vs. 80%)

A QUALIFIED ACTIVE LOW INCOME COMMUNITY BUSINESS IS GENERALLY ANY BUSINESS IF:

- At least 50% of the total <u>gross income</u> is from the active conduct of a qualified business in Low-Income Communities (“LICs”)
- At least 40% of the <u>use of the tangible property</u> of the business is located in LICs
- At least 40% of the <u>services provided</u> by the business’ employees are performed in LICs

The gross income test is deemed to be met if <u>*EITHER*</u> the tangible property <u>*OR*</u> the services test is at 50% or higher.

INELIGIBLE BUSINESS ACTIVITY

- Operation of residential rental property:
  - Buildings which derive 80% or more of income from residential dwelling units; and
- Properties where no substantial improvements are made
- Development or holding of intangibles for sale or license
- Operation of other ineligible businesses
  - Golf courses
  - Race tracks
  - Gambling facilities
  - Certain farming businesses
  - Stores where the principal business is the sale of alcoholic beverages

ELIGIBLE REAL ESTATE BUSINESS ACTIVITY

- Eligible rental property is any rental property that is not residential property as long as there are substantial improvements located on such property including:
  - Office/retail real estate
  - Mixed use real estate

- Other eligible real estate activities are:
  - Single family home sales

Rental of Real Property/ Lessees

- After June 22, 2005, a CDE's investment in or loan to a business engaged in rental of real property is not a QLICI to the extent a lessee's business consists of the operation of:
  - Any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or
  - Any store the principal business of which is the sale of alcoholic beverages for consumption off premises

RECAPTURE

NMTCs may be recaptured from investors during the 7-year credit period if:

- The CDE ceases to qualify as a CDE
- The CDE redeems the investment
- The substantially all requirement is not met

RECAPTURE

- Cure Period
  - If a CDE fails to meet the “substantially all” requirement as to a QEI, and the CDE corrects the failure within 6 months after the date the CDE becomes aware (or reasonably should have), it is not a recapture event.
    - One cure period per QEI.

Historic Tax Credits

Two Types of Rehabilitation Tax Credits

- Older (pre-1936), non-historic and non-residential buildings: 10 percent of qualified rehabilitated expenditures.
- Historic buildings: 20 percent of qualified rehabilitation expenditures.

Important Dates in the History of the Rehabilitation Tax Credits

- 1976: First federal tax incentives for historic preservation (accelerated depreciation/ amortization).
- 1978: First federal tax credit for rehab of historic buildings (10%).
- 1981: Three tiered tax credit (25%, 20% and 15%), including first credit for rehab of older, non-historic buildings.
- 1986: Current two tiered structure; passive loss limitations imposed.

The 20% Rehabilitation Tax Credit Fundamentals

- Tax Aspects Administered by the IRS.
- Preservation aspects jointly administered by NPS and State Historic Pres. Offices (SHPOs).
- Tax Credits = dollar for dollar reduction in tax liability (contrast with deduction).
- RTC is the most important (in dollar volume) federal preservation program.

The 20% Rehabilitation Tax Credit Statistics

- 1,200 proposed project approved by NPS in 2004.
- Top 5 states ranked by Part 2 approvals: MO (164), OH (145), VA (126), MD (76), NC (64)
(FY 2004 statistics).
- Top 5 states ranked by Part 3 approvals: MO (92), VA (88), PA (86), OH (55), NC (54). (FY 2004 statistics).
- Average Cost of Project Certified in 2003: $2.31 million, producing on average $646,667 in credits.

What Types of Buildings Qualify? The IRS Rules: Depreciable Building Requirement

- Must be a “building.” Building is defined as a structure or edifice enclosing a space within its wall and usually covered by a roof.
- Building must be depreciable. Depreciable buildings are generally those used for nonresidential (i.e. commercial) or residential rental purposes.

What Types of Buildings Qualify?
The NPS Rules: Certified Historic Structure Requirement

Option #1

Building is listed in the National Register of Historic Places.

Types of Buildings Qualify? The NPS Rules (cont'd)

Option #2

Building is located in a registered historic district and certified by the Sec. of the Interior as being of historic significance to the district.

What Types of Buildings Qualify? The NPS Rules (cont'd)

Introduction to the Certification Application

Part 1 – Evaluation of Significance

- Part 1 required unless the building is individually listed on the National Register.
- Part 1 is submitted to SHPO. SHPO forwards to NPS.

What Types of Buildings Qualify? The NPS Rules (cont'd)

- Part 1 is used to establish that a building:
  - Does or does not contribute to significance of a district;
  - Has preliminarily been determined to be eligible for National Register listing; and
  - Contribute to proposed historic districts.

What Types of Rehabilitations Qualify? The IRS Rules: Substantial Rehabilitation Requirement

The **QREs** incurred during any 24-month period** selected by the taxpayer and ending in the taxable year in which the building is **placed in service** must exceed the greater of:

- $5,000, or
- The **adjusted basis** of the building.

**A 60-month period may be used for phased rehabs.

What Types of Rehabilitations Qualify? Definition of QREs

"Qualified Rehabilitation Expenditures" (QREs) is the tax term given to those development costs on which rehabilitation tax credits can be claimed.

What Types of Rehabilitations Qualify? Definition of QREs

QREs include costs related to:

- walls, partitions, floors, ceilings;
- permanent coverings such as paneling or tiling;
- windows and doors;
- air conditioning or heating systems, plumbing and plumbing fixtures;
- chimneys, stairs, elevators, sprinkling systems, fire escapes;
- construction period interest and taxes;
- architect fees, engineering fees, construction management costs;
- reasonable developer fees

What Types of Rehabilitations Qualify? Definition of QREs

- Costs EXCLUDED from QREs:
  - Land and building acquisition;
  - Enlargements that expand total volume (cf. remodeling that increases FMR);
  - Personal property (furniture and appliances, cabinets and movable partitions, tacked carpeting);
  - New building construction;
  - Sitework (demolition, fencing, parking lots, sidewalks, landscaping)

What Types of Rehabilitations Qualify? Calculating Adjusted Basis

Building acquisition costs plus or minus the following:

Items That Increase Basis

- Rehabilitation expenses
- The cost of extending utility service lines to the property.
- Impact fees & Zoning Costs.
- Legal fees, such as the cost of defending and perfecting title.
- Legal fees for obtaining a decrease in an assessment levied against property to pay for local improvements.

Items That Decrease Basis

- Deductions previously allowed (or allowable) for amortization, depreciation etc.
- Investment credit (part or all) taken.
- Casualty and theft losses and insurance reimbursements.
- Certain canceled debt excluded from income.
- Easements.

Adjusted Basis Sample Calculation

Example: In Jan. 1997, you paid $800,000 for a factory. You paid commissions of $20,000 and title search and legal fees of $6,000. You allocated the total cost of $826,000 between land and building--$103,250 for land and $722,750 for the building. On January 1, 2002, the building's adjusted basis calculation might look like this:

Original cost of building including fees and commissions			$722,750
Adjustments to basis:			
Add:			
	Improvements		200,000
	Repair of fire damages		55,000
			$977,750
Subtract:			
	Depreciation	$145,260	
	Deducted casualty loss	50,000	195,260
Adjusted basis on January 1, 2002			**$782,490**

What Types of Rehabilitations Qualify? The IRS Rules: The 24-Month Measuring Period

Time Period	1999	2000	2001	2002
Adjusted Basis on January 1	**$782,490**	$782,490 +$500,000 QRE -30,000 (dep) **=$1,252,490**	$1,252,490 +$550,000 QRE -30,000 (dep) **=$1,772,490**	$1,772,490 +950,000 -$30,000 **=$2,692,490**
QREs Incurred During Year	$500,000	$550,000	$950,000	$250,000

Note: Depreciation only allowable if building remains in service during rehabilitation. Depreciation allowances are approximate.

What Types of Rehabilitations Qualify? The NPS Rules: Certified Rehabilitation Requirement

- The rehabilitation of the building must be certified by the Secretary of the Interior (acting through the NPS) as being consistent with the historic character of the structure or of the historic district in which the structure is located.

What Types of Rehabilitations Qualify? The NPS Rules (cont'd)

Historic Preservation Certification Application
Part 2 – Description of Rehabilitation

- Must be preceded or accompanied by Part 1.
- Part 2 is submitted to SHPO. SHPO forwards to NPS.
- Description of proposed rehabilitation
- Processing Fee of $500 to $2,500 (depending on size)

What Types of Rehabilitations Qualify? The NPS Rules (cont'd)

Historic Preservation Certification Application
Part 3 – Request for Certification of Completed Work

- Must be preceded or accompanied by Part 2.
- Part 3 is submitted to SHPO. SHPO forwards to NPS.

What Types of Rehabilitations Qualify? The NPS Rules (cont'd)

- Must include interior/exterior photographs of completed work preferably including before and after photographs
- Approval generally must be obtained within 30 months after filing the tax return on which the credit was claimed

Historic Tax Credits
Calculating and Claiming HTCs

The 20% Rehabilitation Tax Credit: Calculating the Allowable Credit

Credit equals 20% of all QREs incurred:

- Prior to the start of the 24-month period selected (so long as they were incurred "in connection with" the rehab process that resulted in the substantial rehabilitation of the building);
- During the 24-month period; and
- After the last day of the 24-month period but before the last day of the tax year in which the measuring period ends.

Sample Sources and Uses

SOURCES		
Federal Tax Credit Equity	4,727,474	
Managing Member Equity	25,185,030	(Managing Member's Step in the shoe basis at close of LLC)
Managing Member Equity	1,484,827	(Managing Member's Equity Contributed after close of LLC)
TOTAL SOURCES	**31,397,331**	

USES	Project Totals	Qualified Rehabilitation Expenditure
ACQUISITION		
Land Acquisition	-	-
Building Acquisition	1,056,907	-
Total Acquisition	**1,056,907**	**-**
CONSTRUCTION		
Total Hard Costs	**23,762,354**	**20,606,595**
SOFT COSTS		
Total Soft Costs	**5,008,949**	**2,994,204**
RESERVES		
Put Reserve	709,121	-
Operating Reserve	400,000	-
Total Reserves	**1,109,121**	**-**
DEVELOPMENT FEE		
Developer Fee	460,000	460,000
Total Development Fee	**460,000**	**460,000**
TOTAL DEVELOPMENT COST	**31,397,331**	**24,060,799**

(1) $773,341 of the Environmental Remediation was done outside of the building
(2) Developer fee is equal to 20% of last 10% of QRE's

The 20% Rehabilitation Tax Credit: Calculating the Allowable Credit

Qualified Rehab Expenditures	24,060,799
Credit Rate	20.00%
Total Calculated Credit	4,812,160
Tax Credit Investor Allocation	99.99%
Total Credit to Investors	4,811,679
Credit Price Per Each $1 of Credit	
Equity Contributions by Investors	4,727,474

The 20% Rehabilitation Tax Credit When is the Credit Allowed?

- Credit is generally allowed in the year in which the building is placed in service (provided substantial rehabilitation test has been met).

  "Placement in Service" means that the all or identifiable portions of the building is placed in a condition or state of readiness and availability for a specifically assigned function.

The 20% Rehabilitation Tax Credit
Who Can Claim the Credit?

- The Credits belong to the taxpayer(s) that owns title to the property when the QREs are placed in service.
- A landlord that incurs QREs can elect to pass the credit to its long-term tenants.
- Long-term tenants can claim credits on the QREs they incur themselves.
- Under certain circumstances, a seller can pass the credits to a buyer.

The 20% Rehabilitation Tax Credit
Who Can Claim the Credit? (cont'd)

- When property owner is a pass through entity, the Credits are allocated in accordance with taxable profits.
- Property owner must reduce basis by the amount of Credits claimed.

The 20% Rehabilitation Tax Credit Limitations on Claiming the Credit

- Insufficient tax liability.
- Business Tax Credit limitations ($25K + 75%).
- Passive Activity Rules
  - Does not affect passive income;
  - Real estate professionals “exception”;
  - “Trade or Business”/material participation “exception” (no rental);
  - Deduction Equivalent (AGI < $200,000).

20% Rehabilitation Tax Credit Limitations on Claiming the Credit

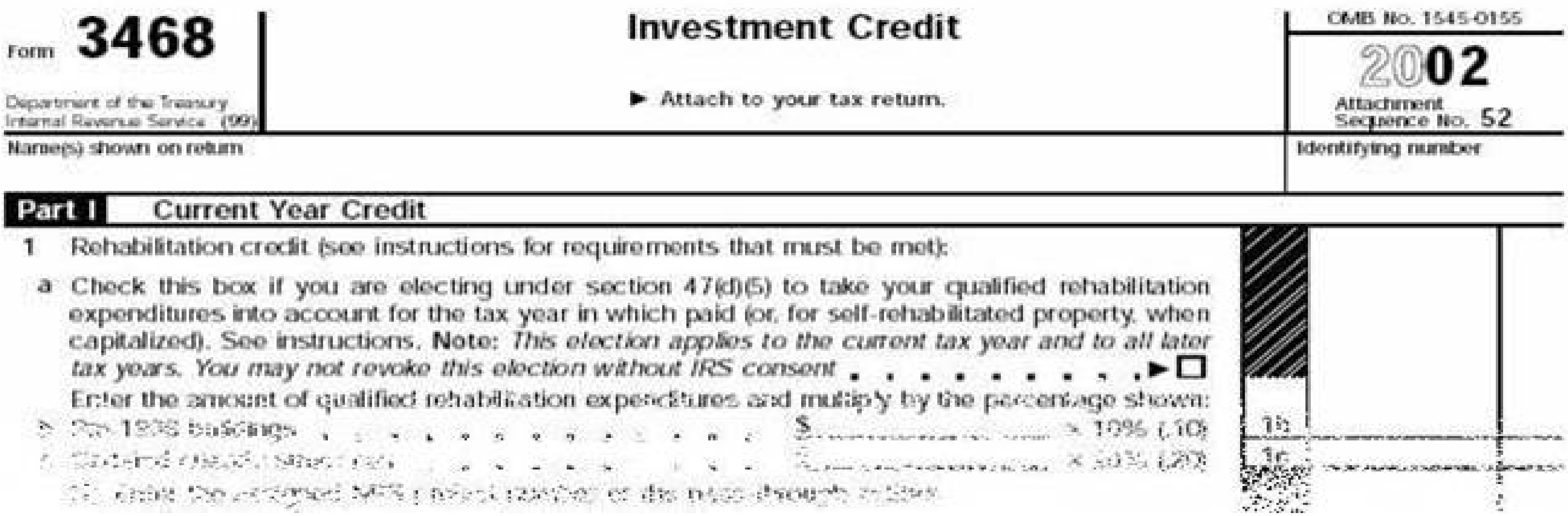
At-risk Rules (issues include too much non-recourse debt and non-qualified financing).

Alternative Minimum Tax.

Credits that can't be claimed may generally be carried back one year and carried forward 20 years (indefinitely in the case of credits affected by the Passive Activity Rules).

Tutorial available at http://trustwork2.nthp.org/community-partners/taxcreditguide/index.html.

How to Claim the Rehab Tax Credit



Form **3468**

Department of the Treasury
Internal Revenue Service (99)

Investment Credit

▶ Attach to your tax return.

OMB No. 1545-0155

2002

Attachment Sequence No. 52

Name(s) shown on return

Identifying number

Part I Current Year Credit

1 Rehabilitation credit (see instructions for requirements that must be met):

a Check this box if you are electing under section 47(d)(5) to take your qualified rehabilitation expenditures into account for the tax year in which paid (or, for self-rehabilitated property, when capitalized). See instructions. **Note:** *This election applies to the current tax year and to all later tax years. You may not revoke this election without IRS consent* . . . . ▶ ☐

Enter the amount of qualified rehabilitation expenditures and multiply by the percentage shown:

- Credits are claimed by filing IRS form 3468 along with the tax return for the year in which the taxpayer claims the credit.
- Part 3 Approval need not have already been obtained (but generally must be obtained within 30 months of tax return filing date)

The 20% Rehabilitation Tax Credit Recapture

- Credit previously allowed is recaptured if any portion of the project which includes QREs is disposed of prior to the fifth anniversary of placement in service.
- Amount subject to recapture decreases by 20% during each year of the five year period.

The 20% Rehabilitation Tax Credit Recapture

- Disposition includes any sale, exchange, transfer, gift or casualty. Subsequent rehabs that do not comply with the Secretary's Standards can trigger recapture.
- Reduction of a partners interest can be deemed a disposition (33% rule).

Section 108 Loan Guarantee Program

SECTION 108 - WHAT IS IT?

- Financing tool that allows communities to borrow as much as 5 times their CDBG allocations
- Activities must meet CDBG requirements and loan must meet Sec. 108 underwriting criteria
- Locality issues notes for HUD’s loan guarantee
- Notes are repaid with CDBG funds and/or program income

ADVANTAGES OF SEC 108

- Flexible repayment terms
- Leverages grants
- Not a general obligation
- Long-term, fixed-rate financing at favorable rates

TERMS AND CONDITIONS

- Up to 20 Year Maturity
- Repayment May Include Interest Only for Initial Years
- Permanent Financing – Fixed Rates
- Interim Financing - Variable Rate - LIBOR

(Three Month London Interbank Offering Rate)

ELIGIBLE ACTIVITIES

- Real property acquisition
- Rehab of publicly owned real property
  - Relocation
  - Clearance/demolition
  - Site preparation

ELIGIBLE ACTIVITIES

- Housing rehabilitation
- Economic development
- Public facilities/improvements
- Issuance costs
- Interest on Sec. 108 loan
- Reserves

NATIONAL OBJECTIVES

LOW/MOD BENEFIT

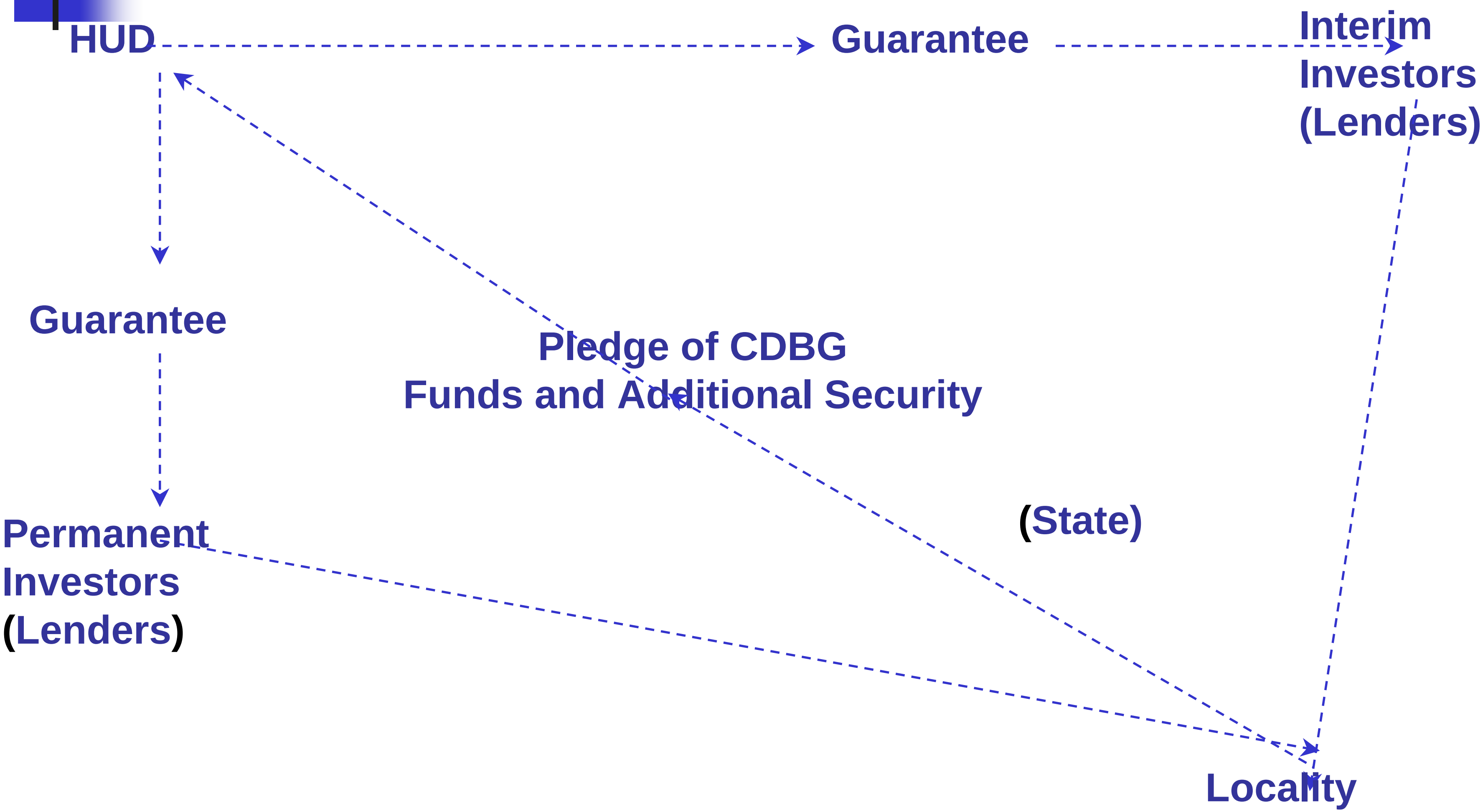
- Area Benefit
- Limited Clientele
- Housing
- Jobs

SLUM/BLIGHT

- Area
- Spot
- Urban Renewal

URGENT NEED

The Section 108 Guarantee Program



TYPICAL USES

- Housing rehab
- Public facilities/improvements
- Retail
- Office
- Mixed use

Sources of Repayment of Section 108 Loans

- CDBG funds
- Program income
- Revenues from 3rd party borrowers

Forms of Additional Security

Examples include:

- Assets created from use of Sec. 108 funds
- Portfolio income
- Parking revenue
- Tax increment financing revenues
- Sale-leaseback, lease-leaseback
- Assignment of 3rd party loan

PHILADELPHIA, PA - $18,000,000 SECTION 108 LOAN GUARANTEE

300 UNITS OF AFFORDABLE HOUSING

COMMUNITIES USING SECTION 108 GUARANTEED LOANS WITH

- HISTORIC TAX CREDITS
- LOW INCOME HOUSING TAX CREDITS
- NEW MARKETS TAX CREDITS

Tax Increment Financing

Tax Increment Financing (TIF)

- What is it?
  - A defined reinvestment zone within a city that is created by council action in order to provide infrastructure improvements to that area.
- What is it not?
  - It is not a separate political subdivision
- Who can participate?
  - Counties
  - Hospital Districts
  - Road Districts
  - Junior College Districts
- Who issues the debt?
  - The City issues the debt.
    - Usually certificates of obligation

Tax Increment Financing (TIF)

- How is the debt repaid?
  - Upon the creation of the TIF a base value is established within the TIF.
  - Any incremental increase in value, the captured value, may be used to repay any debt or obligation within the zone.
  - The captured value only applies to real property.
  - TIF values do not include personal property.
- What can be funded from the TIF?
  - Acquire and/or renovate deteriorated, blighted or underdeveloped areas.
  - This includes raw land.
- The participation of the other overlapping taxing jurisdictions may prove crucial to the success of the TIF.

Tax Increment Financing (TIF)

What types of improvements?

- Acquire and/or construct public works:
  - Gas and electric utilities
  - Streets
  - Water and sewer facilities
  - Pedestrian malls
  - Parks
  - Flood and drainage facilities
  - Educational facilities
  - Parking facilities
  - Landscaping
  - Monuments and signage
  - Public buildings (museums, city halls, libraries, etc.)

What is Tax Increment Financing (TIF)?

- TIF uses the projected increase in property tax revenue to be gained by developing an area to assist in paying for the development project
- TIF can be a useful tool in helping to fund economic development
- TIF helps fund projects that otherwise would not get built

Who can use TIF?

- Tax increment financing is a tool that can be used by counties municipalities
- Projects that receive TIF funding can be proposed by a county, a municipality, another government entity or a private developer
  - Every project must have the support of the local county or municipality who have the responsibility of getting approval for TIF-funded projects

Where can TIF be used?

- Tax increment financing can only be used for projects within an approved special project area or district
- Such project areas or districts can be established in advance of a project idea or at the same time a project is being proposed
- Projects must directly and substantively benefit the area in which they are located
- TIF financing is usually reserved for projects that otherwise would not get built

Development or Redevelopment Project Areas or Districts

- Development or redevelopment project areas or districts can exist a limited number of years in some states
- A development project area or district is a discrete, contiguous geographic area that has not previously been developed or is underdeveloped
- A redevelopment project area or district is a discrete, contiguous geographic area that needs upgrading or enhanced
- The development of a development or redevelopment area or district would result in:
  - **An increase in jobs,**
  - **Enhancement of the tax base, and**
  - **Encourage commerce, industry, or manufacturing to locate their operations in the local area**

Development or Redevelopment Projects

- A development or redevelopment project must promote the economic development of the project area or district by:
  - Eliminating a blighted area,
  - Preventing the deterioration of an area into a blighted area,
  - Increasing employment, and/or
  - Encouraging the location of commercial or industrial activity and jobs

- Examples of projects that might use Tax Increment Financing:
  - Creating an industrial site – including installing sewer, water, and electric lines to the site
  - Cleaning up a environmentally blighted area and preparing the land for future development
  - Building a road that improves access to an area

How Does Tax Increment Financing Work?

- A development or redevelopment project area or district is established
- The county assessor certifies the base assessed value
- A development or redevelopment project gets approved
- Each year, over the life of the TIF-funded project, the county assessor will certify the current assessed value of the property in the development or redevelopment project area or district
- The difference between the amount of **regular levy property taxes** on the current assessed value and the amount of regular levy property taxes on the base assessed value is the tax increment

How Does Tax Increment Financing Work?

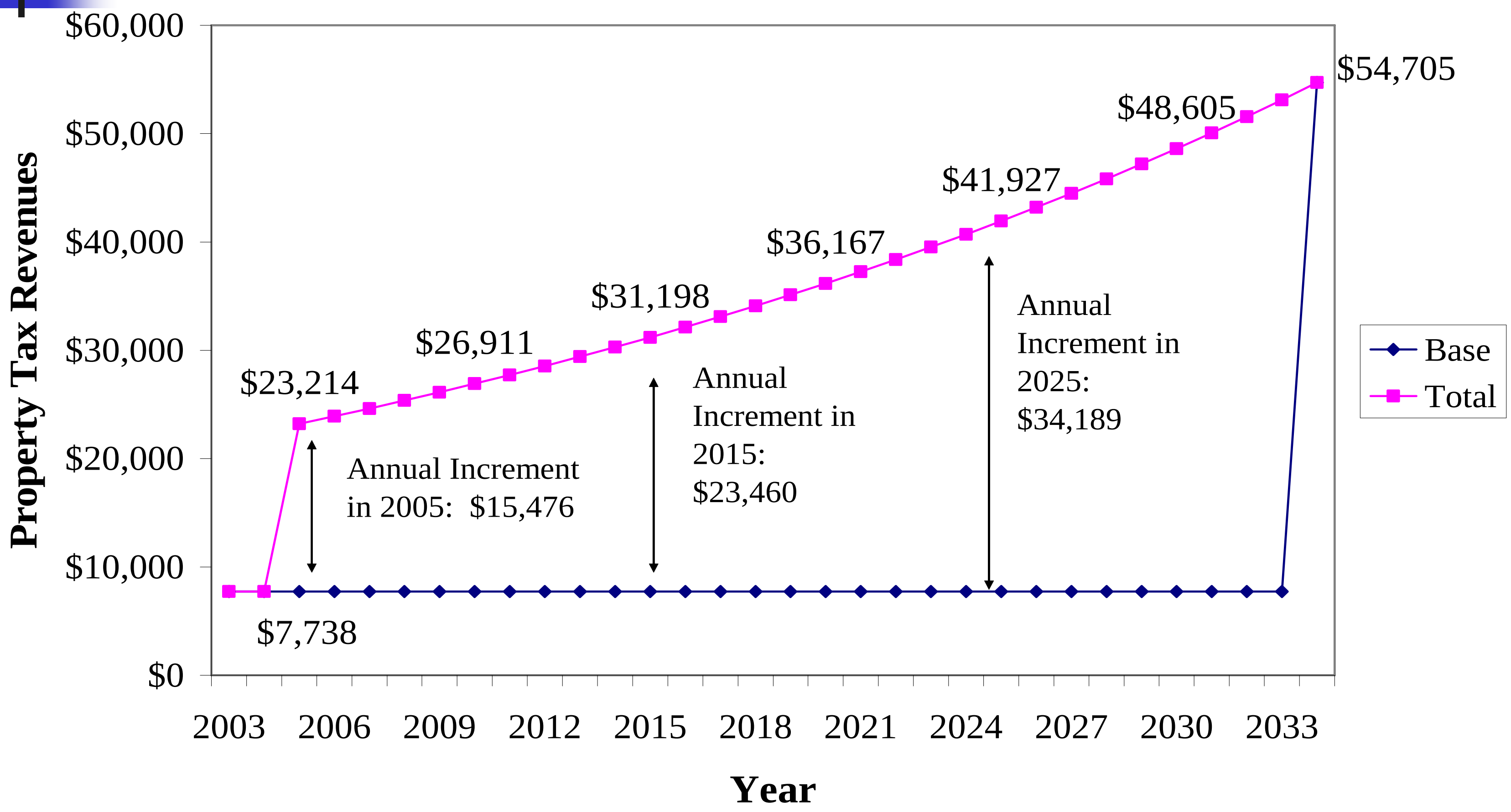
- TIF can be used when a development or redevelopment project is expected to generate a positive increment
  - In other words, TIF works when a project is expected to increase property values in the project area or district

- The incremental increase in regular levy taxes are used to help finance the project in one of two ways:

  (1) Pay-as-you-go

  (2) Issuing Tax Increment Financing Bonds or Notes

Example of Tax Increment Financing



Establishing a Development or Redevelopment Project Area or District

- Hold public hearings;
- Obtain from the county assessor the base assessed value of all taxable property with a tax situs in the proposed project area or district;
- Submit an application to the appropriate office of your state government;
- Adopt a municipal ordinance approving the development or redevelopment project area or district; and
- Establish the tax increment financing fund (TIF fund).

Community-Based Social Equity Funds

City Within A City (CWAC)

"Charlotte will be a community leading in diverse, healthy neighborhoods of choice."

- Increase neighborhood infrastructure
- Improve economic opportunity
- Increase environmental safety
- Extend partnerships
- Increase capacity building
- Support school system

Nehemiah Community Reinvestment Fund

- Acquisition and Redevelopment Financing
  - 12 months, 6% interest, monthly interest payments
  - 90% LTV
  - First deed of trust
  - Subordinate to construction lender based on as-if completed value