A Primer on Utilizing
Low Income Housing Tax Credits

THURSDAY, JUNE 15, 2017

3:45 – 5:00 P.M.

Today's presenters

Ed Truscelli
Executive Director
Princeton Community Housing
609 924 3822
edward@princetoncommunityhousing.org

Costas Paleologos
Vice President, Originations
PNC Real Estate
617 542 4968
costas.paleologos@pnc.com

Dave Evans
Director of Affordable Housing,
East Region
Baker Tilly Virchow Krause, LLP
717 727 7213
david.evans@bakertilly.com

Wayne Schiferl, CPA
Partner
Baker Tilly Virchow Krause, LLP
612 876 4800
wayne.schiferl@bakertilly.com

Tax credit 101

Program overview

- The Low Income Housing Tax Credit (LIHTC) program is the primary vehicle for the development of affordable multifamily housing in the United States
- Created in 1986 – Section 42 of the IRS Code
- Federal program to create and preserve affordable housing, stimulate private investment, create jobs and revitalize communities
- Administered by the Internal Revenue Service (IRS) in partnership with states

Program overview (continued)

- States are awarded an allocation of LIHTCs each year based on per capita
- State tax credit administrators are typically the housing finance agencies
- Each state creates a Qualified Allocation Plan detailing the criterion for the awarding of LIHTCs to developments
- The tax credit administrator for New Jersey is the New Jersey Housing and Mortgage Finance Agency

LIHTC calculation

> There are four components to the calculation of Low Income Housing Tax Credits:

- Qualified low income building
- Eligible basis
- Applicable fraction (low income occupancy percentage)
- Credit percentage

Qualified low income building

- Occupied with at least:
  - 20 percent of residents at 50 percent of Area Median Income (AMI) adjusted for family size; or
  - 40 percent of residents at 60 percent of AMI adjusted for family size
- 15 year initial compliance period, but must maintain affordability for at least 30 years, some states require longer

Eligible basis

> Primarily the equivalent of the depreciable basis of the building

> Excludes:

- Land costs
- Commercial property
- Federal grants
- Historic tax credits

Applicable fraction

- Equivalent to the number of units rented to low income residents divided by the total number of units in the property
- In the majority of LIHTC developments, the applicable fraction is 100 percent

Credit percentage

> Nine percent credit – competitive, each state receives an allocation. NJ has $25,000,000 available in 2017 (Applications were due on May 2, 2017)

> Four percent credit – tax exempt financing and acquisition cost of property

> Was recalculated monthly to achieve equivalent of 70 percent or 30 percent present value to 1987

> Nine percent now permanent; four percent still recalculated, currently 3.24 percent

> Credits are received each year over a 10 year period

DDAs and QCTs

- Difficult to Develop Areas (DDAs) and Qualified Census Tracts (QCTs) are determined annually by HUD
- If in a DDA or QCT, the eligible basis receives a 30 percent boost.

Example development

- We’re going to look at a three story building for senior occupancy
- Located in an urban center and a QCT
- There are 55 units

Cost Categories	Costs	Basis
Construction Costs	$ 10,675,000	$ 9,825,000
Fees	515,000	500,000
Misc. Development Charges	245,000	95,000
Construction & Financing Charges	120,000	120,000
Permanent Financing	25,000	0
Land & Building Purchase	2,160,000	0
Reserves	170,000	0
Developers Fee	1,590,000	1,590,000
Syndication Fees	285,000	215,000
Other	60,000	0
Total Development Cost	$ 15,845,000	
Eligible Basis		$12,345,000

LIHTCS and Investment

Eligible Basis	$ 12,345,000
Basis Boost	130.00%
Total Eligible Basis	$ 16,048,500
Applicable Fraction	100.00%
Total Qualified Basis	$ 16,048,500
Applicable Percentage	9.00%
Total Tax Credits	$ 1,444,365
Amount Investor is willing to pay	$ 0.98
Total Investment from Investor (Limited Partner)	$ 14,154,777

Developer's perspective

Ed Truscelli – Princeton Community Housing

Development considerations

> Risks/rewards
> Getting your team in place
> Zoning and site selection
> Stakeholder support/NIMBY
> Operational considerations
> Financing

Investor's perspective

Costas Paleologos – PNC Real Estate

Death by taxes

- Guarantees: Completion, operating and recapture
- Liquidity: Guarantor must have minimum liquidity
- Long-term estimations: Negative trending and keeping the deal above water through the compliance period
- Surplus cash flow: 1.15 DSCR with debt; 1.07 Income to Expense Ratio for deal with no hard debt
- Experienced development team required

Consultant’s perspective

Dave Evans – Baker Tilly

BAKER TILLY

Putting the deal together

> Timing: Construction completion vs. funding availability

> Program requirements (QAP): Threshold requirements; ranking criteria; and fees

> Feasibility: Does the deal work?

> Financing: Mortgage debt and need for other funding

Tax professional's perspective

Wayne Schiferl – Baker Tilly

BAKER TILLY

Tax considerations

> Income and loss allocations

> Cash flow allocations

> Audit and tax return timing

> Depreciation and Cost Segregation

> Capital account maintenance and monitoring

> Exit strategies

Questions?

THANK YOU!