Low-Income Housing Tax Credit Program (LIHTC)

February 2013

Connecticut Housing Finance Authority

Low-Income Housing Tax Credit Program (LIHTC)
An Overview

- A Tax Credit program created under the Tax Reform Act of 1986
- Based on Section 42 of the Internal Revenue Code
- The Federal Government makes credits available to each state for allocation through “housing credit agencies” based upon state populations
- Like other HFA’s, CHFA is designated as Connecticut’s “housing credit agency”

Low-Income Housing Tax Credit Program (LIHTC)
An Overview

- The LIHTC program is a Public/Private Partnership

- After receipt of credits, Developers:
  - work with Syndicators
  - sell credits to Investors
  - receive dollars (equity) during construction

- Investors receive tax credits over 10 years

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Why are Tax Credits so Valuable?

- Tax Credits play a vital role in helping the state to address its low-income rental housing needs by increasing the amount of equity available to developments that otherwise would not have been built, purchased or rehabilitated

- Tax Credits have become the single most important source of capital in the development of affordable housing in the nation

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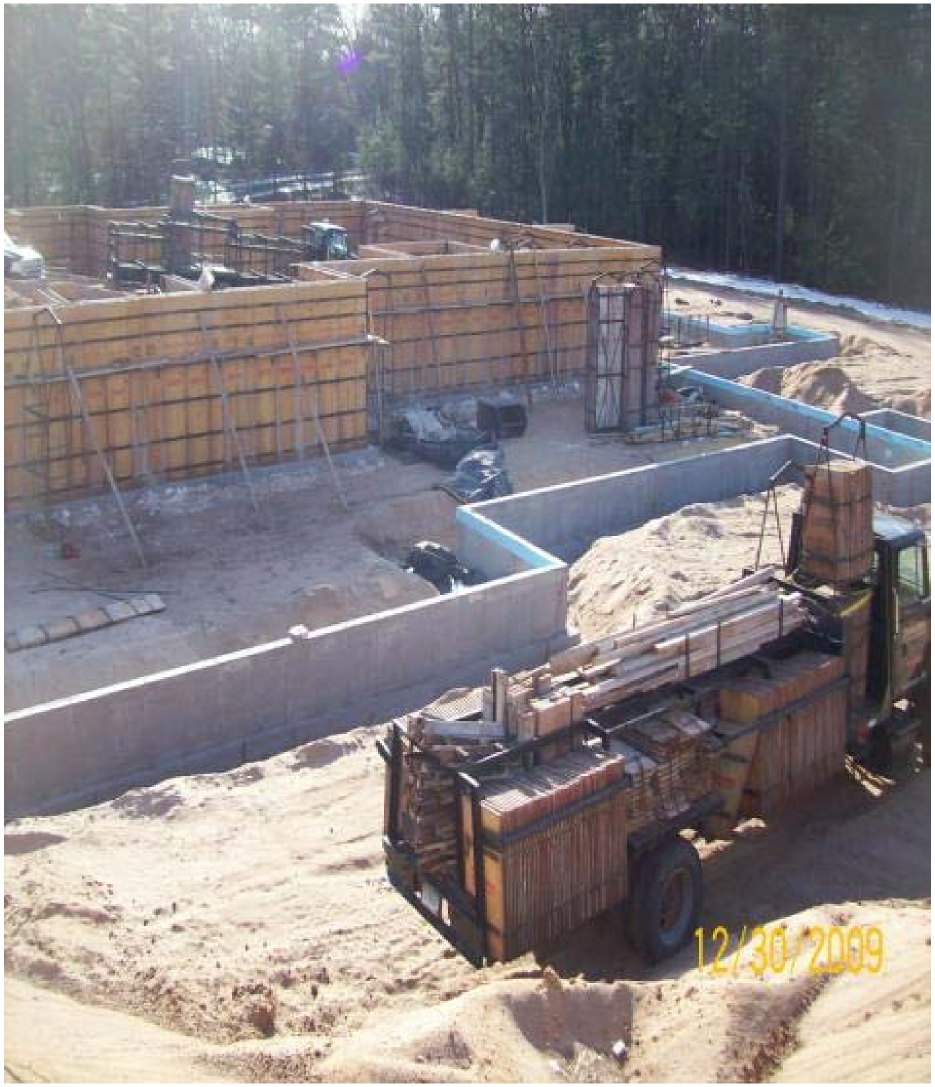
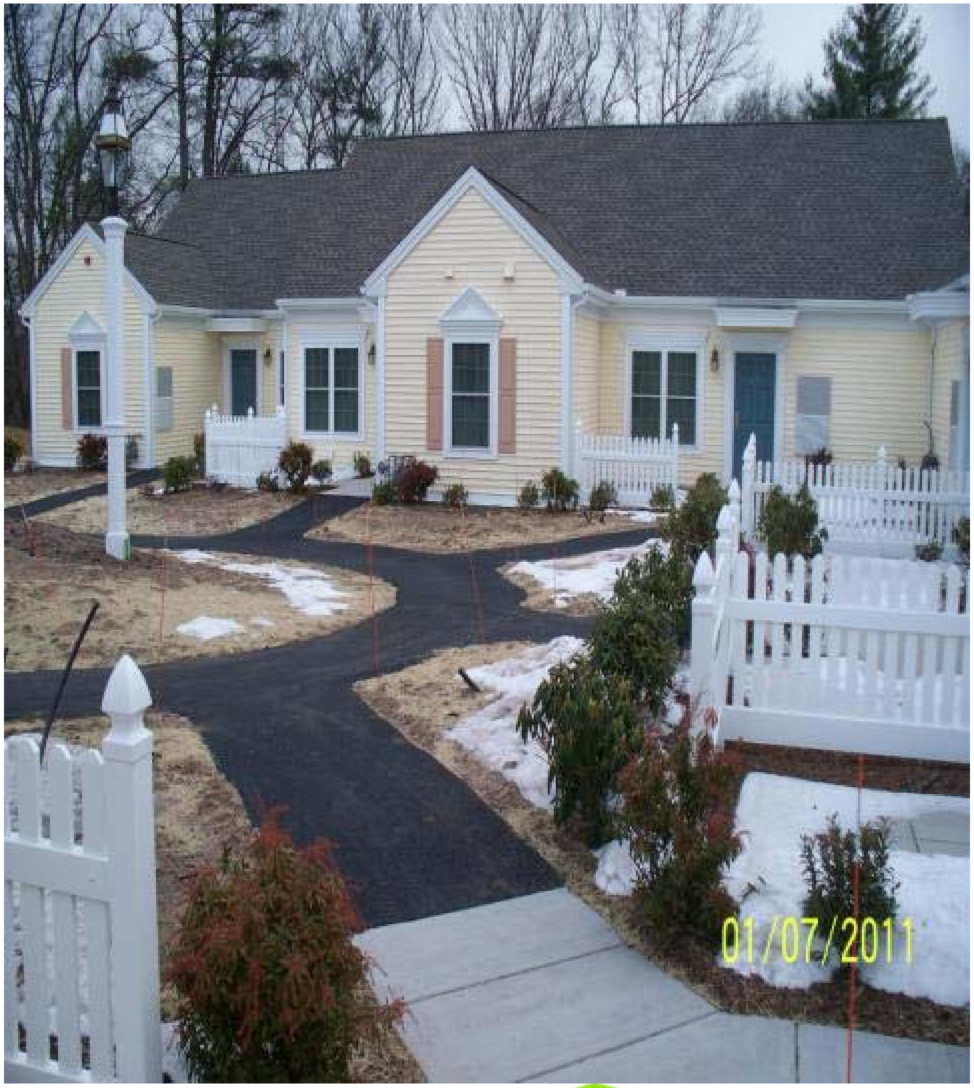
Why are Tax Credits so Valuable?

- Tax Credits provide an incentive for private investment and cover a gap in the financing of affordable rental housing

- Over 2.4 million affordable housing units have been created since the Federal Low-Income Housing Tax Credit program inception





Peachtree, Avon

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How the LIHTC Program Works

- Two types of credits are available:
  - **The 4% credit** – Allows 4% credits for rehabilitation, new construction and acquisition in conjunction with Tax-Exempt Bonds
    - for cost of development
    - for cost of acquisition
  - **The 9% credit** – Allows 9% credits for new construction and rehabilitation activities
    - for cost of development
- All projects are reviewed to CHFA underwriting guidelines

How the LIHTC Program Works

- To be eligible:
  - the project developer must set aside a specified percentage of units for occupancy by low-income residents
  - the set-aside requirement remains in place throughout the compliance period which is 15 years

-plus-

  - An extended use period, which is at least 15 more years, for a minimum period totaling 30 years

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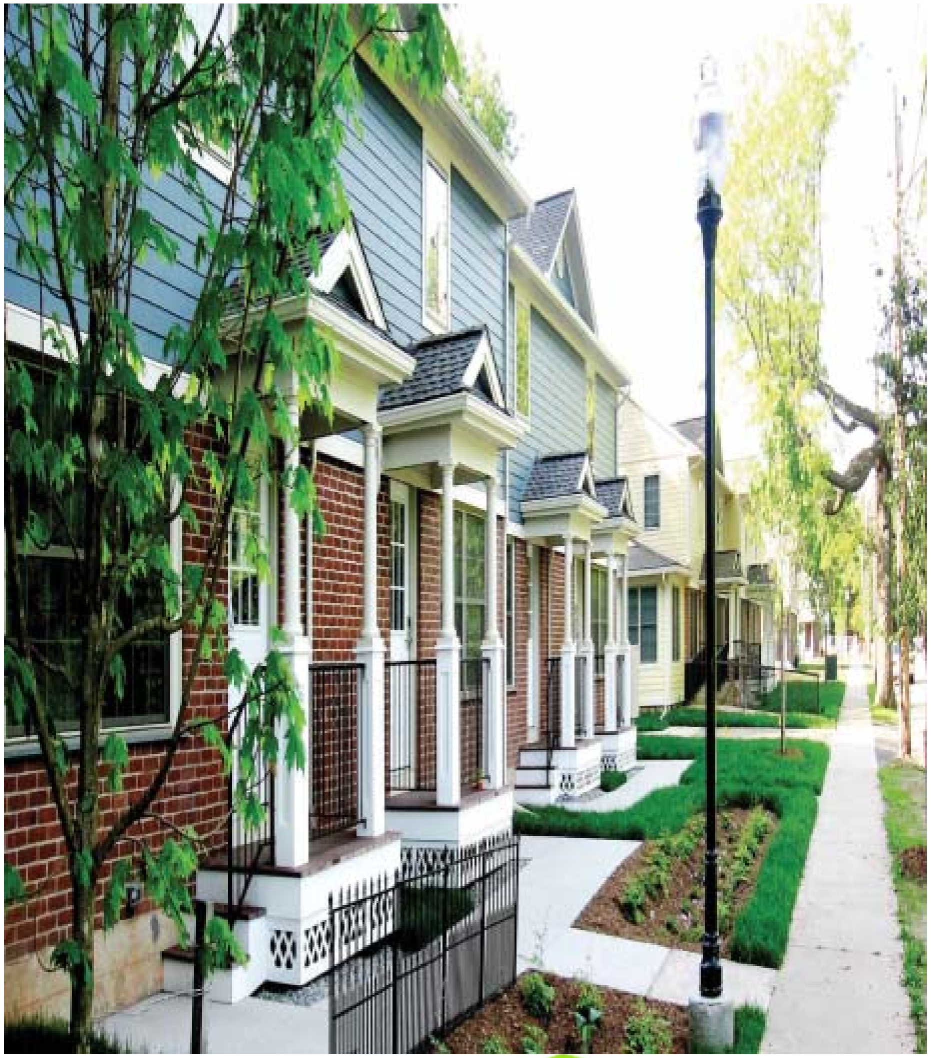

Chamberlain Heights, Meriden

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How the 4% LIHTC Program Works

- A typical 4% LIHTC proposal would include acquisition, rehabilitation and significant leveraging
- 4% credits are allocated in conjunction with Tax-Exempt Private Activity Bonds
- CHFA generally provides the tax-exempt financing with CHFA Board of Directors approval

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How the 4% LIHTC Program Works

- A Tax Credit Property must satisfy the 50% test (50% or more of the development cost must be financed by the tax-exempt bonds)
- CHFA received over $260 million in Tax – Exempt Private Activity Bonds for multifamily housing development use

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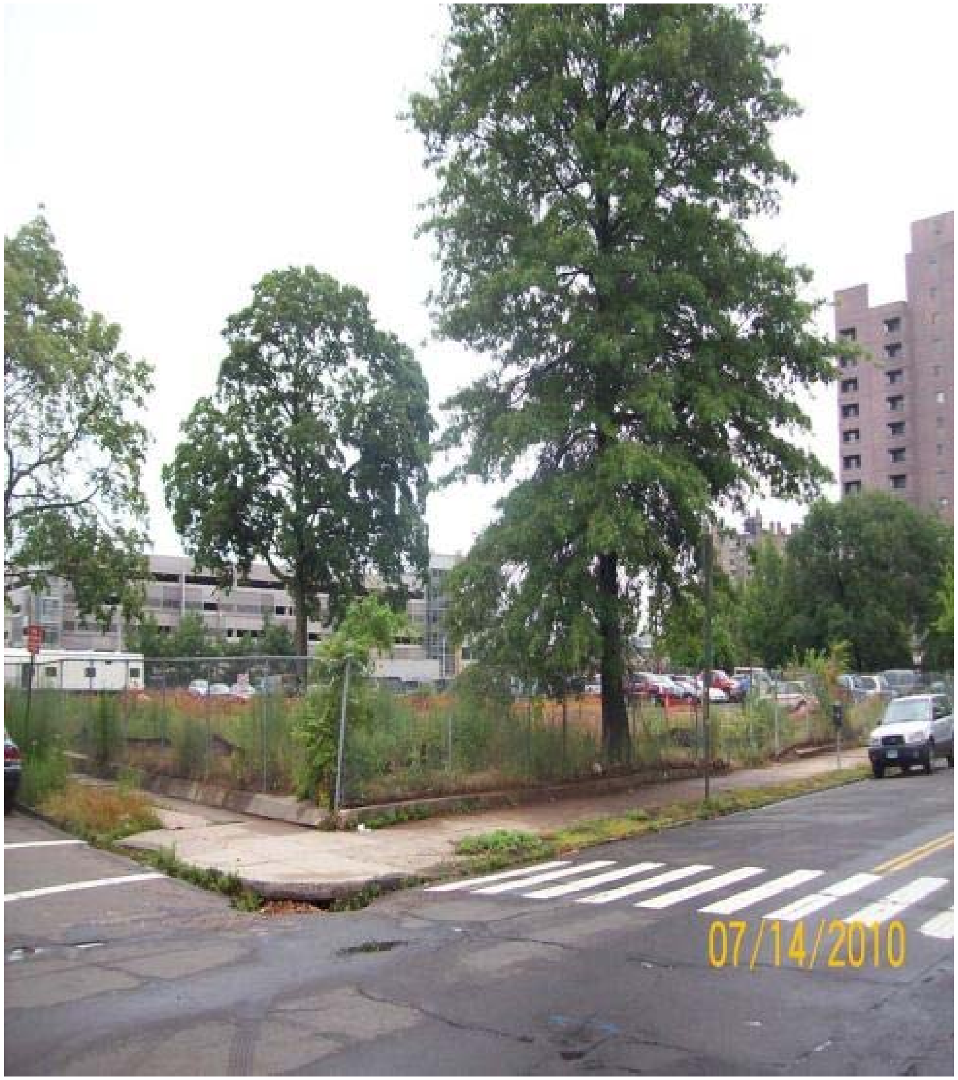
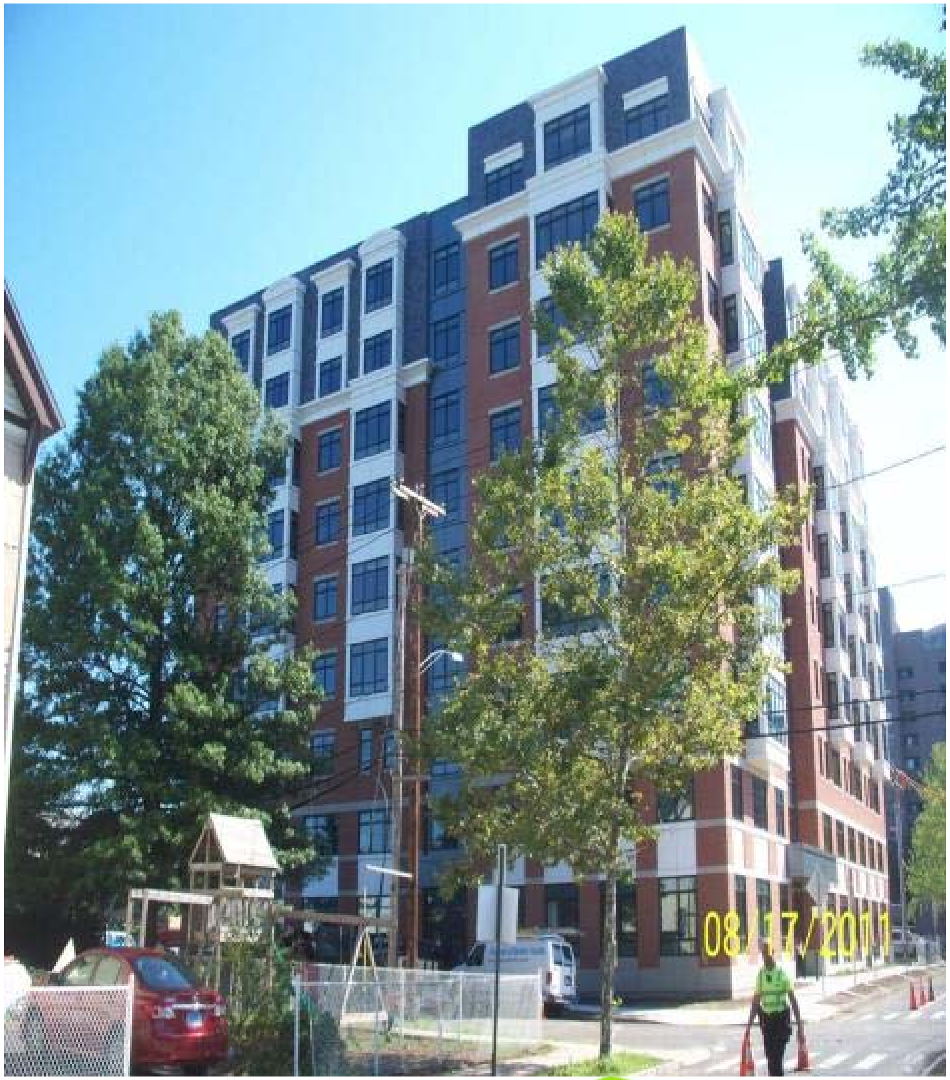
How the 4% LIHTC Program Works

- A 4% Tax Credit Application is not evaluated on a competitive basis and is submitted to CHFA at any time during the year
- Developers often seek funds from DECD
- In the last year, 4% deals needing additional subsidy apply concurrently in the CHAMP rounds to DECD





William T. Rowe, New Haven

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How the 9% LIHTC Program Works

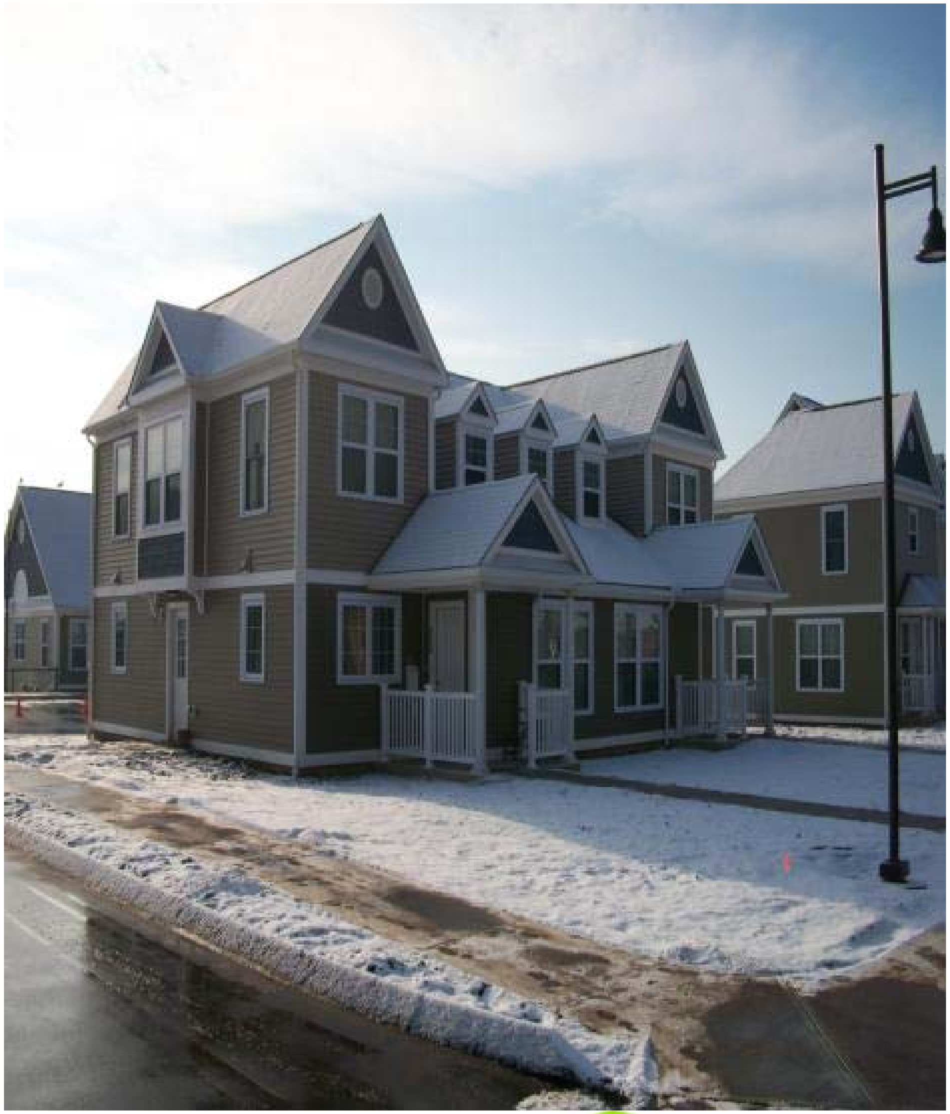
- A typical 9% LIHTC proposal would include new construction, substantial rehabilitation and acquisition
- Connecticut receives approximately $8 million in credits per year, determined by State population
- The credits translate to nearly $75 - $80 million in private equity investment in affordable housing every year

How the 9% LIHTC Program Works

- Applications fall into one of three Classifications:
  - Public Housing
    - ➢ Replaces or Rehabilitates Public Housing
  - General
    - ➢ Other than Public Housing
    - ➢ Includes Non-Profit 10% set-aside (Federal Requirement)
  - Exceptional Priorities
    - ➢ Must provide an extraordinary public benefit
    - ➢ Apply outside of the round

How the 9% LIHTC Program Works

- CHFA typically holds one 9% funding round per year
- Developers submit applications which are reviewed and competitively rated and ranked based on established scoring criteria
- Developers often seek additional funds from DECD
- Once the competitive rating & ranking occurs, the results are submitted to CHFA's Board of Directors for approval



Corbin Heights, New Britain

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DEVELOPMENTS FUNDED 2008 – 2012

	9%		4%	
Year	$ Amount	#Units	$ Amount	#Units
2008	7.3M	387	4.7M	239
2009	9.7M	828	2.8M	534
2010	4.9M	303	3.1M	185
2011	17.7M	900	3.8M	758
2012	n/a	n/a	3.0M	619
TOTAL	39.6M	2,418	17.4M	2,335

DEVELOPMENTS FUNDED
2008 – 2012

9%						
Year	**Urban**	**Non-Urban**	**Family**	**Elderly**	**Supportive Projects**	**Supportive Units**
2008	**2**	**5**	**5**	**2**	**2**	**21**
2009	**5**	**4**	**7**	**2**	**6**	**79**
2010	**3**	**1**	**3**	**1**	**3**	**44**
2011	**5**	**6**	**9**	**2**	**7**	**130**
2012	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
TOTAL	**15**	**16**	**24**	**7**	**18**	**274**

DEVELOPMENTS FUNDED
2008 – 2012

4%						
Year	Urban	Non-Urban	Family	Elderly	Supportive Projects	Supportive Units
2008	2	0	1	1	0	0
2009	2	1	2	1	0	0
2010	3	1	2	2	0	0
2011	5	2	4	3	2	137
2012	4	2	4	2	2	44
TOTAL	16	6	13	9	4	181

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What is a QAP?

- The Qualified Allocation Plan (“QAP”) is the document that outlines the criteria and the process for allocating credits
- The QAP is driven by:
  - IRC Section 42
  - State policy documents, such as the:
    - Consolidated Plan for Housing and Community Development (ConPlan)
    - Conservation and Development Policies Plan (C & D Policies Plan)

The QAP Process?

- The QAP is updated annually
- Feedback is received from DECD staff, the Governor’s office and now the Interagency Council
- CHFA’s Board of Directors reviews the draft to be published for Public Comment
- CHFAs’ Board of Directors approves the QAP after Public Comment consideration
- The Final QAP is then signed by the Governor

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Highlights of the Current QAP

Points used for the selection of 9% awards reflect priorities

Rental Affordability – 41 Points
• Household income targeting preferences • Length of affordability restrictions • Resident services provided at the properties • Supportive housing • Mixed income
Financial Sustainability – 24 Points
• Cost effectiveness • Long-term energy saving measures • Readiness to proceed

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Highlights of the Current QAP

Municipal Commitment & Impacts – 22 Points
• Location siting preferences • Municipal commitment • Neighborhood amenities that contribute to vibrant communities • TOD and smart growth
Qualifications and Experience – 13 Points
• LIHTC experience of a developer/sponsor and management agent • Developer/sponsor financial resources • Development team's minority and Connecticut based makeup

Tentative 2013 Calendar
9% LIHTC Application Round

Timeframe	Action
February / March	Interagency Council; Governors' Input
April	CHFA Board Approval release for Public Comment
May / June	Public Comment
July	CHFA Board Approval
October	9% Applications submitted
1st Quarter 2014	9% Results

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