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# San Diego Housing Commission Workshop & Discussion: Multifamily Housing Revenue Bonds and Low-Income Housing Tax Credits March 6, 2020

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# SDHC Multifamily Housing

## Creating and Preserving Affordable Housing

- SDHC's Mission: Provide affordable, safe, and quality homes for low- and moderate-income families and individuals in the City of San Diego and to provide opportunities to improve the quality of life for the families that SDHC serves.
- SDHC partners with developers to:
  - Build new affordable rental housing units
  - Rehabilitate existing affordable rental housing units to preserve them and/or extend their affordability
- Tax-exempt Multifamily Housing Revenue Bonds and Low-Income Housing Tax Credits are essential resources to finance the creation and preservation of affordable housing.



# SDHC Multifamily Housing Revenue Bond Program

- Multifamily Housing Revenue Bonds have been issued by the City of San Diego or the Housing Authority since 1982.
- SDHC's Multifamily Housing Revenue Bond Program was enacted in 1989.
- As a public agency, the Housing Authority is authorized to issue Multifamily Housing Revenue Bonds.



# SDHC Multifamily Housing Revenue Bond Program (Continued)

- SDHC utilizes the Housing Authority's tax-exempt borrowing status to pass on lower interest rate financing (and make federal 4 percent tax credits available) to developers of affordable rental housing.
- The Housing Authority's ability to issue bonds is limited under the U.S. Internal Revenue Code.
- To issue bonds for a development, the Housing Authority must first submit an application to the California Debt Limit Allocation Committee (CDLAC) for a bond allocation.
- Prior to submitting applications to CDLAC, developments are brought before the SDHC Board, Housing Authority and City Council.
- Housing Authority bond inducement resolutions must be obtained prior to application submittal, and City Council Tax Equity and Fiscal Responsibility Act (TEFRA) resolutions must be secured no later than 30 days after application submittal.



# SDHC Multifamily Housing Revenue Bond Program (Continued)

- Federal law limits how much tax-exempt debt a state can issue (Annual State Ceiling) in a calendar year for private projects that have a qualified public benefit.
- The limit is determined by a state's population, multiplied by a specified dollar amount.
- The Annual State Ceiling for California in calendar year 2020 is \$4,148,783,415.



# SDHC Multifamily Housing Revenue Bond Program (Continued)

- SDHC authorizes the issuance of Multifamily Housing Revenue Bonds, subject to the approval of the Housing Authority.
- SDHC, the City of San Diego and the Housing Authority are not financially liable for the bonds.
- Private sources of funds, such as revenue from the development, are used to repay the bonds.
- If project revenues do not support repayment of the bonds, the bondholders (or a third-party credit enhancer) will bear the loss.



# SDHC Multifamily Housing Revenue Bond Program (Continued)

- Income Restrictions:
  - A minimum of 20% of the units must be set aside for households with income up to 50% of AMI; or
  - A minimum of 40% of the units must be set aside for households with income up to 60% of AMI.
- Affordable for a 55-year period.
- Multifamily Housing Revenue Bonds are publicly offered or privately placed with bondholders.
- 95% of the tax-exempt bond proceeds must be allocated to capital costs associated with the development.



*Paseo La Paz  
137 affordable units for families  
San Ysidro  
\$28.6 million Multifamily Housing Revenue Bonds  
February 27, 2020*





# SDHC Multifamily Housing Revenue Bond Program (Continued)

- Economic Benefits of Multifamily Housing Revenue Bonds
  - Tax-exempt from federal and/or state and local taxes, which results in below market rate interest compared with conventional financing.
  - Qualifies for 4% Low Income Housing Tax Credits (LIHTC)



*Bluewater*

*79 affordable units for families, including  
seven units for veterans who  
experienced homelessness*

*Grantville*

*\$19.5 million Multifamily Housing Revenue Bonds  
December 2, 2019*





# SDHC Multifamily Housing Revenue Bond Program (Continued)

- CDLAC requires issuers of Multifamily Housing Revenue Bonds to provide annual certification of compliance reports:
  - Data by calendar year
  - Must be submitted by March 1 of the following year
- SDHC works with the Borrower to ensure current forms are completed correctly and monitors the project for compliance with the CLDAC resolution and regulatory agreement.
- All reporting is ultimately submitted by SDHC to CDLAC via an online reporting system.



# SDHC Multifamily Housing Revenue Bond Program (Continued)

- As a part of the SDHC and City audit cycle, SDHC staff monitor the outstanding Multifamily Housing Revenue Bond balances at the close of each fiscal year (July 1 through June 30).
- The outstanding bond balance report is prepared by confirming from the project trustees and/or developers the balance of Multifamily Housing Revenue Bonds outstanding as of June 30 each year.
- SDHC staff compile the information and provide the data to City fiscal staff.



# SDHC Multifamily Housing Low-Income Housing Tax Credits

- 1) Brief history and overview of the program
- 2) How tax credits work
- 3) Types of tax credits
- 4) Participants in tax credit transactions
- 5) What a tax credit is
- 6) How tax credits are calculated
- 7) Other sources of financing
- 8) Examples of tax credit projects



# SDHC Multifamily Housing Low-Income Housing Tax Credits (Continued)

## 1) Brief history and overview of the tax credit program



# SDHC Multifamily Housing

## Low-Income Housing Tax Credits (Continued)

- IRS created the program in 1986 to fund affordable housing with public-private partnerships.
- It provides affordable developers with federal tax credits, administered by the state, that are sold to private investors who contribute equity to the project in exchange for tax benefits.
- Developers use this to acquire, construct and rehabilitate low-income housing developments.
- The tax credit program finances approximately 110,000 affordable homes for low-income households nationwide each year (nearly 3 million affordable apartments financed since 1986), according to the U.S. Department of Housing and Urban Development.
- In a typical year, the tax credit supports nearly 95,000 new full-time jobs, according to the National Association of Home Builders.



# SDHC Multifamily Housing

## Low-Income Housing Tax Credits (Continued)

### **Development Types**

- New Construction
- Acquisition & Rehabilitation
- Developments in Urban, Rural and Suburban Locations

### **Populations Served**

- Low-income Families, Seniors, Individuals and residents with Special Needs
- Affordability maximum is 80% of Area Median Income, with blended income levels in a development.
- Rent (including utilities) is limited to 30% of household income.



# SDHC Multifamily Housing Low-Income Housing Tax Credits (Continued)

## 2) How tax credits work





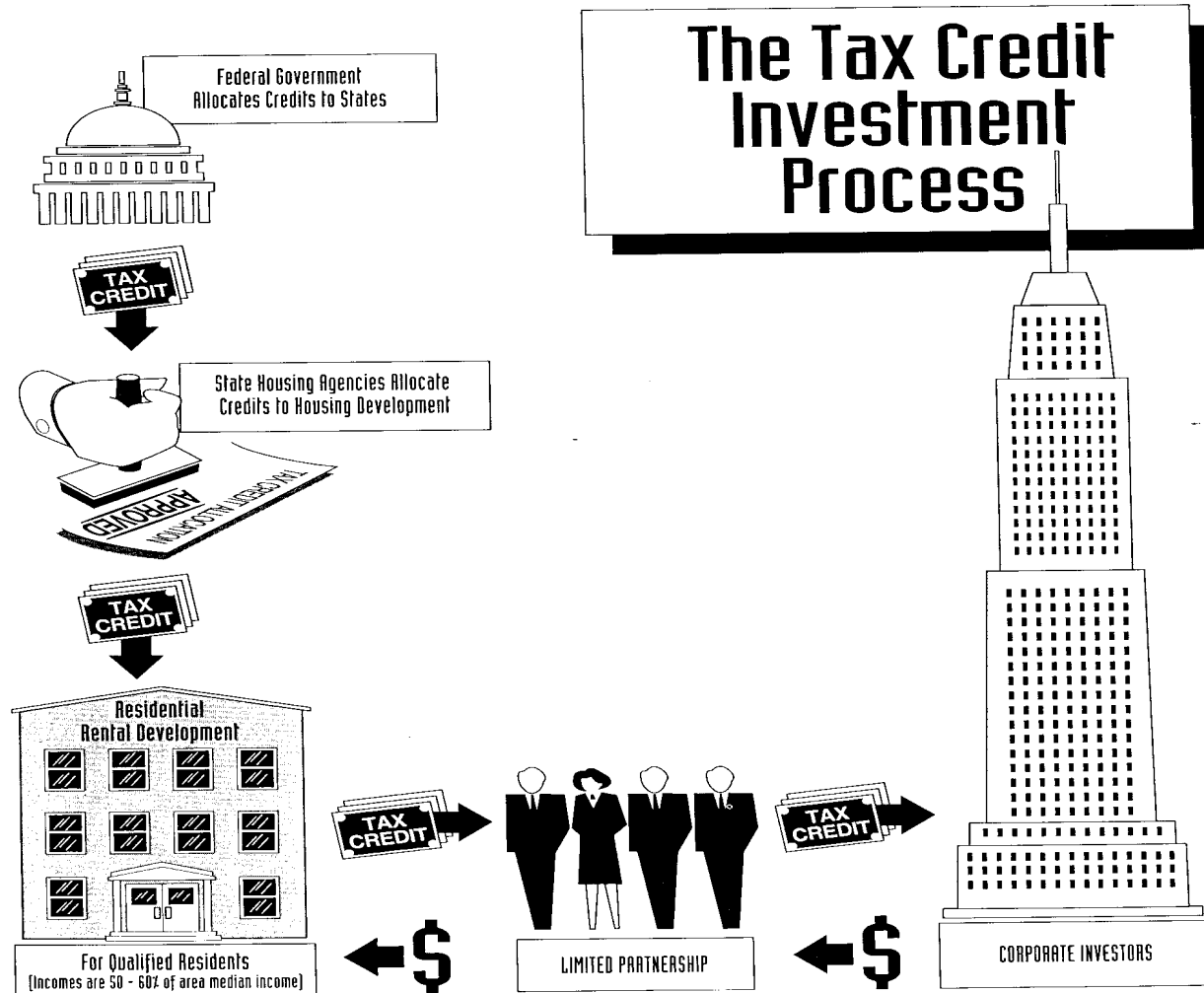
# SDHC Multifamily Housing

## Low-Income Housing Tax Credits (Continued)

- Each state receives a per capita amount of tax credits annually to allocate to projects.
- Developers submit applications for proposed developments to the State Agency (California Tax Credit Allocation Committee) for an award of tax credits.
- The tax credits are sold (or syndicated) to a corporate investor, which in turn offsets their federal tax liability.



# SDHC Multifamily Housing Low-Income Housing Tax Credits (Continued)



# SDHC Multifamily Housing Low-Income Housing Tax Credits (Continued)

## 3) Types of tax credits



# SDHC Multifamily Housing

## Low-Income Housing Tax Credits (Continued)

### 9% Tax Credits

- 9% tax credits are awarded through competitive application process from the California Tax Credit Allocation Committee (CTCAC)
- There are two competitive CTCAC rounds each year.

### 4% Tax Credits

- 4% tax credits are awarded through a competitive process and couple with tax-exempt Multifamily Housing Revenue Bonds
- Bonds are allocated by the California Debt Limit Allocation Committee (CDLAC) and issued by SDHC.



# SDHC Multifamily Housing Low-Income Housing Tax Credits (Continued)

## 4) Participants in tax credit transactions



# SDHC Multifamily Housing

## Low-Income Housing Tax Credits (Continued)

### Financing Partners

- **Local Government**

- San Diego Housing Commission
- City of San Diego
- County of San Diego
- Civic San Diego

- **State Government**

- California Tax Credit Allocation Committee (TCAC)
- California Debt Limit Allocation Committee (CDLAC)
- California Department of Housing and Community Development (HCD)
- California Housing Finance Agency (CalHFA)

- **Federal Government**

- IRS
- U.S. Department of Housing and Urban Development (HUD)
- U.S. Department of Veterans Affairs (VA)
- U.S. Department of Agriculture

- **Private Lender/Investors**

- Construction lender
- Permanent lenders
- Tax Credit Syndicator
- Tax Credit Investors



# SDHC Multifamily Housing

## Low-Income Housing Tax Credits (Continued)

### Tax Credit Investors

- Tax Credit Syndicators – National Equity Fund, Boston Capital, Richman, WNC
- Banks – Citibank, US Bank, Wells Fargo, Bank of America
- Corporations – Exxon, Google, Microsoft
- Insurance companies – Nationwide Insurance
- Private citizens/investors

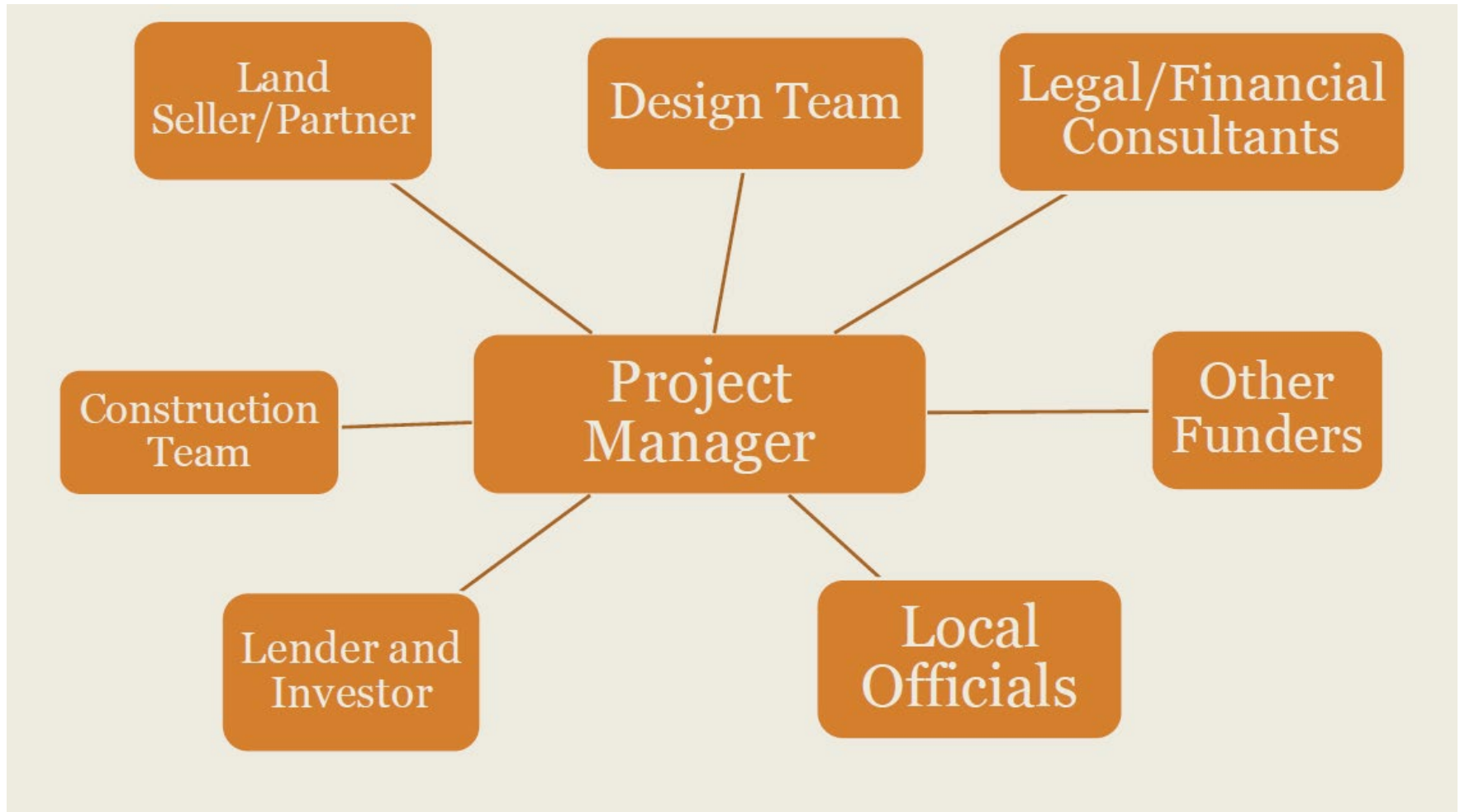




# SDHC Multifamily Housing

## Low-Income Housing Tax Credits (Continued)

### Development Team and Financing Partners



# SDHC Multifamily Housing Low-Income Housing Tax Credits (Continued)

## 5) What a tax credit is



# SDHC Multifamily Housing

## Low-Income Housing Tax Credits (Continued)

- A tax credit is a dollar-for-dollar reduction in tax liability.

Gross Taxable Income	\$1,300,000
Tax Deductions (Depreciation, Interest, etc.)	(\$300,000)
Taxable Income	\$1,000,000
Tax Liability @ 21% Tax Rate	\$210,000
Low-Income Housing Tax Credits (Purchased)	(\$110,000)
Net Tax Liability	\$100,000



# SDHC Multifamily Housing Low-Income Housing Tax Credits (Continued)

## 6) How tax credits are calculated



# SDHC Multifamily Housing

## Low-Income Housing Tax Credits (Continued)

### Determining Tax Credit Basis

Eligible Costs (Acquisition, Hard Costs, Design, etc.)

X

Applicable Fraction (Based on # of Tax Credit Units)

X

Basis Boost (130% for Qualified Locations)

=

Tax Credit Qualified Basis



# SDHC Multifamily Housing

## Low-Income Housing Tax Credits (Continued)

### Determining Tax Credit Basis (Continued)

ITEM	4% Credits	9% Credits
<b>Total Development Costs</b>	<b>\$39,809,217</b>	<b>\$39,809,217</b>
Eligible Acquisition Basis	\$16,606,813	\$16,606,813
Applicable Credit Rate (Acquisition)	X 3.24%	X 3.24%
Eligible Rehab Basis	\$20,345,241	\$20,345,241
Applicable Credit Rate (Rehab Basis)	X 3.24%	X 9%
Total Annual Credits (Acquisition + Rehab)	\$1,197,247	\$2,369,132
Total 10-Year Credits (Annual Credits x 10)	\$11,972,465	\$23,691,324
Tax Credit Equity Price	\$1.035	\$1.035
<b>Total Investor Equity (10-Year Credits x \$1.035)</b>	<b>\$12,391,497</b>	<b>\$24,520,511</b>



# SDHC Multifamily Housing Low-Income Housing Tax Credits (Continued)

## 7) Other sources of financing in a tax credit transaction





# SDHC Multifamily Housing Low-Income Housing Tax Credits (Continued)

- Tax-Exempt Multifamily Housing Revenue Bonds (SDHC)
- Section 8 Housing Choice Voucher Rental Assistance (SDHC)
- Soft Loans/Grants (SDHC)
- Private Loans/Mortgage
- Funding for Supportive Services



# SDHC Multifamily Housing

## Low-Income Housing Tax Credits (Continued)

- Gap financing fills the void between total development cost and the funds the developer can obtain from the primary bank loan and tax credit equity.
- Types of Gap Financing:
  - HOME Investment Partnerships Program (HOME)
  - City of San Diego Housing Trust Fund
  - City of San Diego Inclusionary/In-lieu fees (Local)
  - Community Development Block Grant (CDBG)
  - Federal Home Loan Bank – Affordable Housing Program (AHP)
  - State Mental Health Services Act Funding (MHSA)



# SDHC Multifamily Housing Low-Income Housing Tax Credits (Continued)

## 8) Examples of tax credit projects



# SDHC Multifamily Housing

## Zephyr Apartments

- 84 affordable units and 1 manager's unit
- Grantville



# SDHC Multifamily Housing Alpha Lofts

- 52 affordable units and 1 manager's unit
- Normal Heights





# SDHC Multifamily Housing Luna

- 77 affordable units and 2 managers' units
- Pacific Highlands Ranch





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# SDHC Multifamily Housing Mesa Verde

- 89 affordable units and 1 manager's unit
- Navajo Community







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# SDHC Multifamily Housing

## San Diego Square Senior Apartments

- 154 affordable units and 2 managers' units
- Downtown San Diego



## SDHC Multifamily Housing Multifamily Housing Revenue Bonds and Low-Income Housing Tax Credits

# Questions & Comments

