San Diego Housing Commission (SDHC)
Workshop and Discussion: Low-income Housing Tax Credits
Presentation to the SDHC Board of Commissioners
May 10, 2024

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- U.S. Department of Housing and Urban Development: "The Low-Income Housing Tax Credit (LIHTC) program is the most important resource for creating affordable housing in the United States today."

Multifamily Revenue Bonds

- Provide affordable housing developers access to low-cost debt financing.

- State and local governments issue bonds to finance affordable housing rental projects.

- Bonds are generally repaid from rental income.

Low Income Housing Tax Credits

- Provide tax credits to investors in affordable rental housing developments.

- Developers "sell" the credits to investors to raise equity for affordable housing rental projects.

- Investors use tax credits to offset their tax liability over a 10-year period.

- Multifamily Housing Revenue Bonds / 4% Tax Credits
  - o SDHC presents projects to the SDHC Board of Commissioners (Board) for bond inducement approvals.
    - ▪ Required for joint application to California Debt Limit Allocation Committee (CDLAC) for bonds and to California Tax Credit Allocation Committee (CTCAC) for 4% tax credits
    - ▪ If SDHC proposes a loan awarded through SDHC's Notice of Funding Availability (NOFA), the proposed loan is presented for consideration at this time as well.
  - o After an allocation is received, SDHC presents the project to the SDHC Board and Housing Authority for consideration of final bond issuance approvals.
  - o From date of award, a project has 180 or 194 days to close construction financing

- 9% tax credits
  - – If a project also has a loan awarded through SDHC's NOFA, the project is presented for loan approval prior to the TCAC application due date
  - – From the date of award, a project has 180 or 194 days to close construction financing.
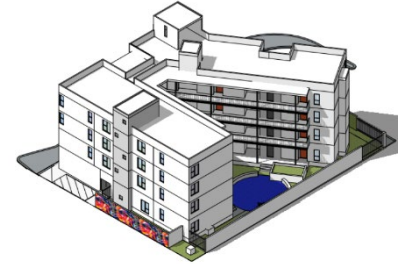
SDHC – Tax Credits
Examples of Tax Credit Properties – Cuatro at City Heights

Site #1
4050 El Cajon Boulevard

Site #2
3951 University Avenue

Site #3
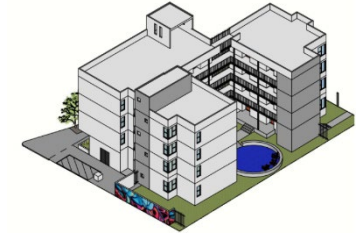4050 University Avenue

Site #4
4102-4122 University Avenue

115 Affordable Housing Units
$47,111,000 Tax-exempt Multifamily Housing Revenue Bonds
4% Low-income Housing Tax Credits
Groundbreaking: April 24, 2024

SDHC – Tax Credits
Examples of Tax Credit Properties – Messina Senior Apartments

78 Affordable Housing Units
9% Low-income Housing Tax Credits
$3.95 Million SDHC Loan
Groundbreaking: June 29, 2023

SDHC – Tax Credits
Examples of Tax Credit Properties – Nestor Senior Village

73 Affordable Housing Units
9% Low-income Housing Tax Credits
$3.3 Million SDHC Loan
Grand Opening: April 4, 2024

SDHC – Tax Credits
Examples of Tax Credit Properties – ShoreLINE

124 Affordable Housing Units
$31,483,880 Tax-exempt Multifamily Housing Revenue Bonds
4% Low-income Housing Tax Credits
Grand Opening: April 30, 2024

Agenda

1. Multifamily Housing Revenue Bond Program

2. Low Income Housing Tax Credit Program

- 4% Tax Credits

- 9% Tax Credits

- Other Funding Sources

Multifamily Housing Revenue Bonds

Multifamily Housing Revenue Bonds

SAN DIEGO HOUSING COMMISSION — SDHC

Allows SDHC to utilize Housing Authority's tax-exempt borrowing status to pass on lower interest rate financing to developers of affordable rental housing

Program History
SDHC Multifamily Housing Revenue Bond Program

- Multifamily Housing Revenue Bonds have been issued by City of San Diego or Housing Authority since 1982

- SDHC's Multifamily Housing Revenue Bond program enacted 1989

- The Housing Authority's ability to issue bonds is limited under the U.S. Internal Revenue Code

Program Parameters

SDHC Multifamily Housing Revenue Bond Program

- SDHC authorizes the issuance of Multifamily Housing Revenue Bonds, subject to the approval of the Housing Authority

- SDHC, the Housing Authority, and the City of San Diego are not financially liable for the bonds

- Net operating income from the development is generally used to repay the bonds

Nestor Senior Village
Nestor
National CORE

Benefits of Multifamily Revenue Bonds

SDHC Multifamily Housing Revenue Bond Program

Lower Interest Rates

- Interest on tax-exempt bonds lower than conventional bank financing (typically by 1.5% - 2.0%)

4% Tax Credits

- Tax-exempt bonds provide "as-of-right" 4% Low Income Housing Tax Credits

Developments Supported by Bonds as of June 30, 2023

9,990 Total Units

8,635 Affordable Units

$1,993,518,705 Total Bond Portfolio

Source: SDHC Fiscal Year 2023 Annual Report

Program Funding Limits

SDHC Multifamily Housing Revenue Bond Program

Milejo Village, San Ysidro
Jamboree Housing Corporation

- Federal law limits how much tax-exempt debt a state can allocate (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 2024 is $4,870,649,125

Project Parameters

SDHC Multifamily Housing Revenue Bond Program

- 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

  Unit incomes ranging between 20%-80% AMI allowed if the overall average of the units does not exceed 60% AMI

  Projects typically exceed minimum income restrictions to score maximum points. Average project affordability typically 50% AMI

- Term: Affordable for a 55-year period

- Bond Issue: Multifamily Housing Revenue Bonds are publicly offered or privately placed with bondholders

*Amanecer Apartments
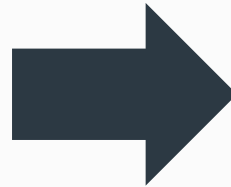Linda Vista
Community HousingWorks*

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Expenditure Requirements

SDHC Multifamily Housing Revenue Bond Program

50% Test

Minimum of 50% of aggregate basis (land + depreciable assets) must be financed with tax-exempt proceeds

Bond allocation cannot exceed per unit limits and 55% of aggregate basis

95% Test:

- 95% of costs financed with bonds must be for "good costs" (architecture and engineering fees, permits, land, depreciable cost, any expense paid or incurred after the Inducement Resolution date)

- 5% costs financed with bonds can be used for "bad costs" (expenses incurred prior to inducement resolution, bond issuance costs and underwriting, loan origination fees)

- Issuance costs (bond counsel, underwriter and trustee fees) cannot exceed 2% of proceeds

Financing Process

SDHC Multifamily Housing Revenue Bond Program

APPLICATION

Developer submits application for bond financing to SDHC

INDUCEMENT RESOLUTION

Bond inducement resolution drafted and adopted by SDHC

TEFRA HEARING

SDHC holds public hearing on proposed bond issuance

BOND ALLOCATION

Housing Authority and developer submit an application to CDLAC for a bond allocation

LOCAL REVIEW

Project reviewed for compliance with zoning requirements and adopted community plans

APPROVAL

SDHC presents proposed bond issuance to Housing Authority and TEFRA Resolution to City Council for final approval

Ongoing Monitoring
SDHC Multifamily Housing Revenue Bond Program

- 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 incomes and rents for compliance with the CDLAC resolution and regulatory agreement

- All reporting is ultimately submitted by SDHC to CDLAC via an online reporting system

Economic Benefits to Multifamily Developments
SDHC Multifamily Housing Revenue Bond Program

interest is tax-exempt from federal and/or state and local taxes

below market rate interest compared with conventional financing

qualifies for 4% Low Income Housing Tax Credits

Low-Income Housing Tax Credits

Program History
Low-Income Housing Tax Credit Program

- Established as part of the Tax Reform Act 1986 to incentivize the development of affordable rental housing

- Generates dollar-for-dollar reduction in tax liability for investors

- Developers apply for LIHTC through a competitive process administered by the California Tax Credit Allocation Committee (CTCAC)

- The LIHTC Program offers two types of credits

  ➢ 4% Tax Credits – Used with tax-exempt bonds

  ➢ 9% Tax Credits – More competitive and provides a larger subsidy
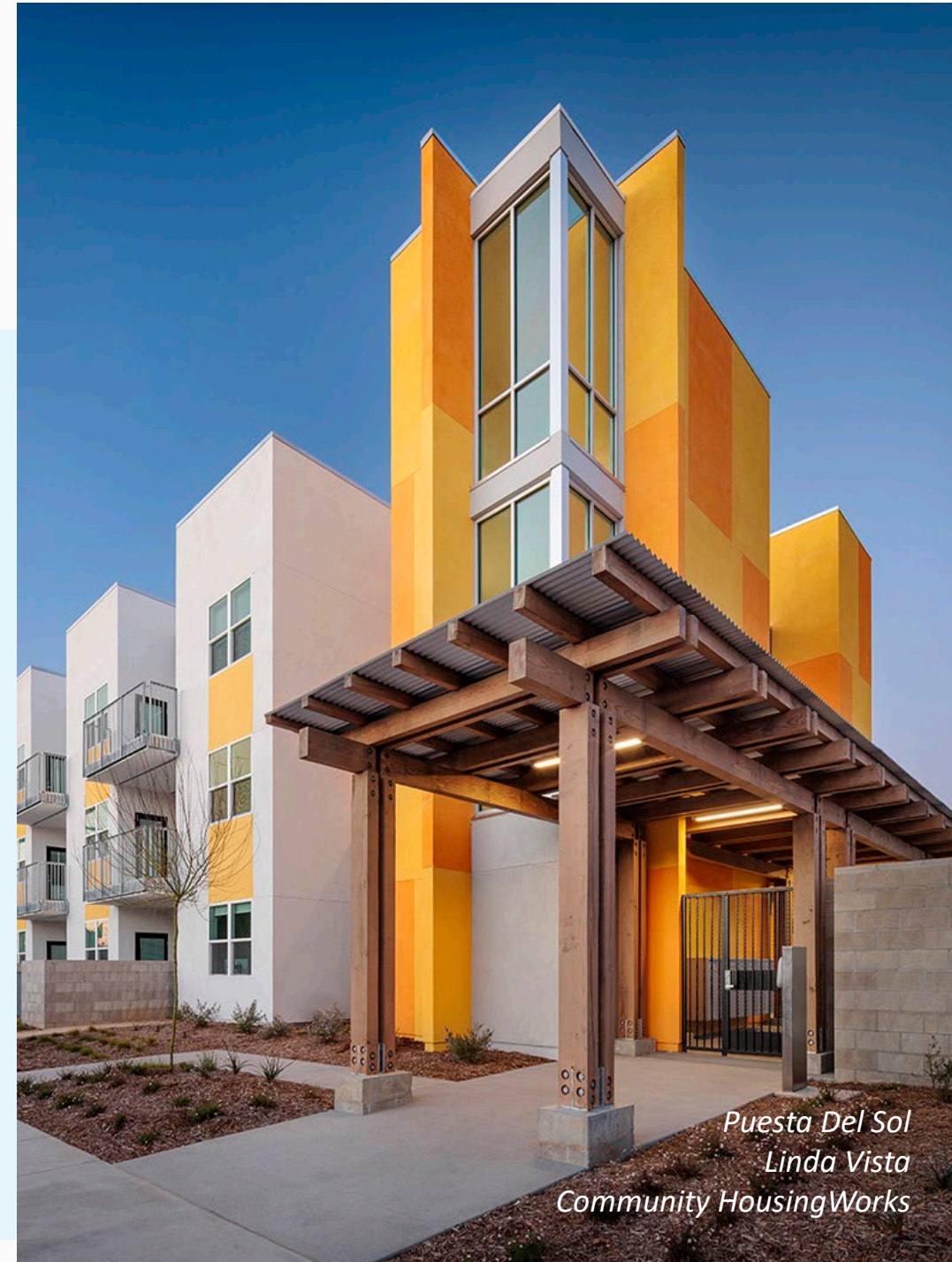
Puesta Del Sol
Linda Vista
Community HousingWorks

4% vs. 9% Tax Credits
Low Income Housing Tax Credit Program

- 55-year restrictions
- Typically average affordability @ 50% AMI

4% Tax Credits	9% Tax Credits
Tax-exempt bonds competitively awarded by the California Debt Limit Allocation Committee (CDLAC). ○ Projects financed with tax-exempt multifamily bonds "automatically" receive 4% Tax Credits	Competitively awarded by the California Tax Credit Allocation Committee (CTCAC) based on point scoring
Affordable housing developers "sell" Tax Credits to outside investors in exchange for equity contribution to affordable housing project	Affordable housing developers "sell" Tax Credits to outside investors in exchange for equity contribution to affordable housing project
Tax Credit investor is co-owner of project for the 15-year compliance period	Tax Credit investor is co-owner of project for the 15-year compliance period
Tax credit benefit equal to approximately 40% of depreciable costs	Tax credit benefit equal to approximately 90% of depreciable costs

How do Low Income Housing Tax Credits Work?

Federal or state government allocates tax credits to state housing agencies.

Developers apply for tax credits. Projects are selected based on how the development meets the state's housing needs.

Developers sell credits to investors who can claim them on their federal or state income tax returns.

SELL

The money raised allows developers to build and maintain housing with lower and more affordable rents.

Source: Adapted from Homeword infographic How the Low Income Housing Tax Credit Works.

California 2024 Estimated 9% LIHTC Federal Credit Ceiling

$2.90 per capita x 38,965,193 population (2023) = $112,999,000 (annual)

(Less) $931,003 Forward Committed 2024 Credit

= $112,068,000 Total Federal Credit Ceiling

San Diego County Apportionment $5,439,000 (annual)

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Tax Credit Allocation Process
Low-Income Housing Tax Credit Program

Application Due	• 9% Tax Credits - Two rounds: February 2024 and July 2024 • 4% Tax Credits - Two rounds: April 2024 and August 2024
Preliminary Reservation	• Awarded 2-3 months after application • Pay performance deposit within 20 days of award

Readiness Closing Deadline	• 180 days
	    o close construction financing
	    o execute partnership agreement
	    o building permits issued
	    o notice to proceed delivered to contractor

Carryover Allocation Deadline	• Projects not Placed in Service in same year as receipt of preliminary reservation must receive a carryover allocation • Must incur 10% of anticipated costs within one year of the carryover date
Placed in Service Deadline	• Obtain Certificate of Occupancy by December 31 of the second year after the carryover allocation date • IRS Form 8609 issued

Tax Credit Applications - San Diego County 2023

Low Income Housing Tax Credit Program

	Applications Received	Applications Awarded	Unfunded Applications	% Unfunded
4% Tax Credits				
Number of Projects	33 Projects	22 Projects	11 Projects	33%
Number of Units	4,093 Units	2,326 Units	1,668 Units	41%
9% Tax Credits				
Number of Projects	5 Projects	3 Projects	2 Projects	40%
Number of Units	307 Units	214 Units	93 Units	30%

Development Costs (1)
Low Income Housing Tax Credit Program

Type V over
Type I
Podium Parking

	4% Tax Credits	9% Tax Credits
	Per Unit	Per Unit
Direct Costs	$460,000	$430,000
Indirect Costs	$150,000	$100,000
Financing Costs	$65,000	$45,000
Development Costs (2)	**$675,000**	**$575,000**

(1) Based on recent affordable housing transactions reviewed by KMA.

(2) Excludes land acquisition.

Funding Sources
Low Income Housing Tax Credit Program

Type V over
Type I
Podium Parking

	4% Tax Credits	9% Tax Credits
	Per Unit	Per Unit
Supportable Permanent Loan	$150,000	$125,000
Tax Credit Equity Investment	**$250,000**	**$375,000**
Other State Funding Sources	$125,000	$0
Deferred Developer Fee	$50,000	$0
Local Gap Contribution	$100,000	$75,000
Total Funding Sources	**$675,000**	**$575,000**

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Calculating Tax Credit Proceeds
Low Income Housing Tax Credit Program

Type V over
Type I
Podium Parking

		4% Tax Credits	9% Tax Credits
		Per Unit	Per Unit
Construction and construction related costs (Eligible Basis)		$525,000	$500,000
(Less) Voluntary Credit Adjustment	@ 30%	$0	($150,000)
= Total Requested Unadjusted Basis		$525,000	$350,000
x Basis Boost	@ 130%	$683,000	$455,000
x Tax Credit Rate		4%	9%
= Annual Tax Credit		$27,000	$41,000
x Ten (10 Years)		$270,000	$410,000
x Limited Partner Share	@ 99.99%	$270,000	$410,000
= Tax Credit Equity	@ 91.5%	$247,000	$375,000
Or Say (Rounded)		**$250,000**	**$375,000**
Typical Tax Credit Equity Per Unit		**$200,000 - $400,000**	

Examples of Tax Credit Investors
Low Income Housing Tax Credit Program

- 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

The Helm, San Diego
Affirmed Housing

City Heights Plaza Del Sol
Wakeland Housing & Development Corporation

City Heights Place
Wakeland Housing & Development Corporation
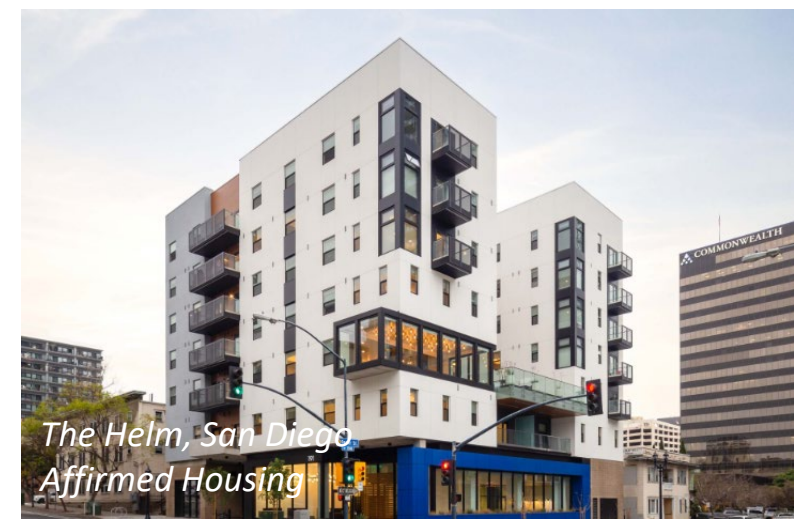
Other Funding Sources
Low Income Housing Tax Credit Program

Federal Government ▶
- Affordable Housing Program
- HOME Investment Partnership Program
- Housing Choice Voucher Program – Project Based Vouchers
- Veterans Affairs Supportive Housing (VASH)

State Government ▶
- Affordable Housing Sustainable Communities (AHSC) Program
- Infill Incentive Grant Program (IIG)
- Multi-Family Housing Program (MHP)
- Mixed-Income Program (MIP)
- No Place Like Home (NPLH)

Local Government ▶
- San Diego Housing Commission
- City of San Diego
- County of San Diego

Questions?