

New Partners for Smart Growth



Los Angeles

February 8, 2007





- A housing subsidy program for rental housing
- Created within **Section 42** of the Internal Revenue Code
- Administered by each state's housing finance agency
- Each state receives \$1.90 per capita annually in 9% tax credits to allocate to projects, annually indexed to inflation starting in 2003
- Eligibility is based on tenant income

What is the Tax Credit Program?



- Tax incentive to encourage the development of affordable residential rental housing (new construction or rehab)
- Investors earn dollar-for-dollar credits against their federal tax liability
- Investors also get tax benefits from losses
- Generally, tax credits are rec'd over the first 10 years of operation
- Equity is generated from the sale of tax credits and losses to investors

Computing LIHTC Equity



▪ Total Development Budget	\$9,632,000
▪ Less ineligible costs	\$1,062,500
▪ Eligible Basis	\$8,569,500
▪ Applicable Fraction	x 100%
▪ QCT/DDA Basis Boost	x 130%
▪ Qualified Basis	\$11,140,350
▪ Applicable Rate (Sep. 06)	x 8.19%
▪ Annual Tax Credits	\$ 912,395
▪ 10 Years	x 10 years
▪ Total Tax Credits	\$ 9,123,950
▪ Price Paid	x \$0.92
▪ Equity to Project	\$ 8,394,034





- Project needs to operate for 15 years
- Income and Rent Restrictions at no more than 60% of Area Median Income (AMI)
- At least a 30 year term of providing affordable units

What types of Affordable Housing to LIHTC Finance?



- New construction and rehab projects
- Acquisition in some cases
- Preservation
- Housing for families, special needs tenants, single room occupancy and the elderly
- Urban, rural and suburban locations
- Additional tax incentives for projects in high-cost or difficult-to develop areas

Other Sources of Funding for a LIHTC Development



- Bank Debt (9%)
- Tax-Exempt Bonds (4%)
- Public low-interest rate loans
- Home, CDBG funds
- Federal Home Loan Bank AHP Funds
- Private and Public grants
- Other Local Funds
- Deferred Development Fee
- Purchase Money Mortgages



- **9% New Construction/ Rehab Credit** - Competitive tax credit allocated annually by State housing agency; each state has a limit amount
- **4% New Construction/ Rehab Credit** – Non-competitive tax credit used to supplement tax-exempt bond financing; unlimited amount, however each state's volume cap for tax exempt bond financing is limited



- A \$9 Billion industry
- Estimates for 2006:
 - \$625m of 9% credits for about \$6.625b in equity
 - \$215m of 4% credits for about \$2.279b in equity
 - Approximately \$75m for state housing credits
 - Total of \$8.879 billion in equity raised in 2006
- Results in about 1,200 – 1,500 developments or about 75,000 – 100,000 units of housing a year
- HUD's budget in 2006 was \$33.6 billion



Some Pros

- Significant amount of capital raised for affordable housing
- Aligns a broad array of institutions to support affordable housing
- Good leverage ratio for public dollars
- Flexibility at the State level
- ???

Some Cons

- Very inefficient way to finance housing (although markedly improved over the past 5 years)
- Complex
- Favors building units at 50% to 60% of AMI and does address lower incomes or workforce housing in stronger markets
- ???



- States can use their allocation of tax credits to encourage Smart Growth and Energy Efficiency
- Effective use of scoring criteria in their Qualified Allocation Plans (QAPs) which determines the allocation of 9% Credits
- Using tax exempt bond volume cap for housing targeted locations
- Using and creating on additional state credits that encourage smart growth ie. housing, energy efficiency, brownfields
- Tie other funding programs that compliment LIHTC to Smart Growth practices



According to a 2006 report prepared for Enterprise:

- 41 States promote sustainable site selection; particularly strong proponents are DE, GA, IL, MD, MA, Michigan, MN, and OR
- 13 states specifically encourage allocation of LIHTCS according to state or local smart growth or other planning policies (the above 8 + CO, ME, NJ, TN, TX)
- 8 States promote proximity to employment centers (DE, GA, IL, KS, MA, MN, OR, WI)
- 4 States promote the use of brown or grey fields (GA, IA, MA, NJ)
- 4 State encourage compact development (CA, MA, Michigan, OR)



- In 2004, Enterprise with its partners launched



- Market transformation – partnerships, policy change, education and technical support
- \$555 million over five years - Grants, Financing, Tax Credit Equity
- 8,500 environmentally responsive, healthy and affordable homes

Smart Growth Concepts Central to Green Communities



- Access to healthy food
- Quality of and access to schools
- Economic opportunities
- Air and water quality
- Public safety
- Choices for physical activity
- Housing choices
- Ease of social interaction
- Investment in social capital
- Inspiration and motivation



- Integrated Design Process
- Location and Neighborhood Fabric
- Site
- Water Conservation
- Energy Conservation
- Materials and Resources
- Healthy Living Environment
- Operations and Management





- Established the Green Communities Criteria
- \$350m invested into Green Communities Projects
- 7,000 sustainable homes underway in 139 developments across 23 states.
- 2,000 professionals trained through 24 in-person and on-line events.
- 20 state and local housing policies made more sustainable.
- 10 state/local partnerships to advance holistic systems change.



Green Communities Partners



The Home Depot Foundation

The Kresge Foundation

Merrill Lynch CDC

Blue Moon Fund

BP America

Paul G. Allen Foundation

Bullitt Foundation

Surdna Foundation

Tides Foundation

J.P. Morgan Chase

M&T Bank

Washington Mutual

Bank of America

Natural Resource Defense Council

American Institute of Architects

American Planning Association

Global Green USA

Southface

National Center for Healthy Housing

National Association of State Energy Officials

Fannie Mae

Freddie Mac



Oleson Woods: Portland, OR



Smart suburban site – Close to public transportation, schools, services and retail; greater density than required.

Conservation focus – Set on three-plus wooded acres; preserved and enlarged a wetland; conserved mature tree canopies during development; wildlife and nature programs for residents.

Site Improvements – Sidewalks and bike lanes to integrate the development into the larger community.

Water conservation – rainwater filtration system.

Energy Efficiency – performance testing by Advanced Energy

Healthy living environment – Optimal ventilation and use of non-toxic, durable, moisture resistant materials and finishes

LIHTC Investment – \$2,875,000





- State Housing Tax Credits
- Historic Credits
- New Market Tax Credits
- Energy Tax Credits
- Brownfield Tax Credits
- Homeownership Tax Credits (under discussion)
- ?????
- ?????
- Negative Incentives – Pay for additional roads, infrastructure,

FOR MORE INFORMATION...

Thoughts? Questions? Ideas?

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