



# STRENGTH MATTERS

## Boot Camp on Financial Reporting for Rental Housing Nonprofit Enterprises

### Module 3:

Deal Structure, Deal Cycle & Participants, Qualified Allocation Plans, LIHTC calculations and the State Determination Letters

**Wednesday, September 28, 2022**

**1:00 – 2:30 PM Eastern**



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Morgan Stanley



# Meet the Presenters

**Gayle H. LaCroix, CPA**

Chief Financial Officer

Volunteers of America of Massachusetts



**S. Scott Seamands, CPA**

Former Partner & Consultant

Lindquist, von Husen & Joyce LLP



# CPE Credit Requirements

- We use polls and the Zoom attendance record to verify participation throughout the session.
- **Participants seeking CPE credits must:**
  - Participate fully in the learning activities and submit ALL polls throughout the course.
  - Log in to each session with first name, last name and email before the scheduled start time.
  - Request a certificate via the final evaluation or email.
- **If you plan to petition your state board of accountancy for CPE credits, please submit ALL polls, including the final evaluation.**



Certificates will be sent after the final session. For more information on CPE credits, **contact Lindsay Wells at [consult.lwells@gmail.com](mailto:consult.lwells@gmail.com).**

# Getting Started

- If you have a technical issue, including issues with Polls, please contact the Host via **Chat**.
- Please use the **Chat** feature to submit all content questions.
- We will pause for questions during the presentation.
- Participants will be muted during the course presentation. Participant breakout rooms offer small group discussion with audio and video sharing.

## **Module 3: Deal Structure, Deal Cycle & Participants, Qualified Allocation Plans, LIHTC calculations and the State Determination Letters**

*90 min/1.5 CPEs*

- See CPE Summary handout for **Core Competencies and Learning Objectives.**

### **Module 3 Materials**

*Please have your Handouts  
PDF available for reference.*

4. Article on Qualified Allocation Plans
5. Department of Housing & Community Development – Determination Letter
6. Data Needed to calculate the LIHTC's for Restoration Housing (*you will need to refer to this file in class*)
7. Low Income Housing Tax Credit Projection - Restoration

# Topics covered to date

- Module 1
  - Identify the Deal
  - Grants, Contributions & Exchange Transactions
  - Predevelopment Best Practices
- Module 2
  - Entity Formation and Deal Structure

## **Module 3: Deal Structure, Deal Cycle & Participants, Qualified Allocation Plans, LIHTC calculations and the State Determination Letters**

Topics for this session:

- Deal Structure
- Deal Cycle
- Qualified Allocation Plans
- LIHTC calculations
- Determination letters



## Deal Structure

### Poll 1

1. Have you seen your state's annual qualified allocation plan?
  - A. Yes
  - B. No

## **Key Development Components**

1. What's in it for the investor
2. Who are the players in a typical affordable housing deal
3. What is included in the Deal Cycle from construction to occupancy
4. How does the State Qualified Allocation Plan impact your tax credit application?
5. Restoration Housing LP – rehab of 61 Victorian Homes in Mission Hill, part of the medical district in Boston

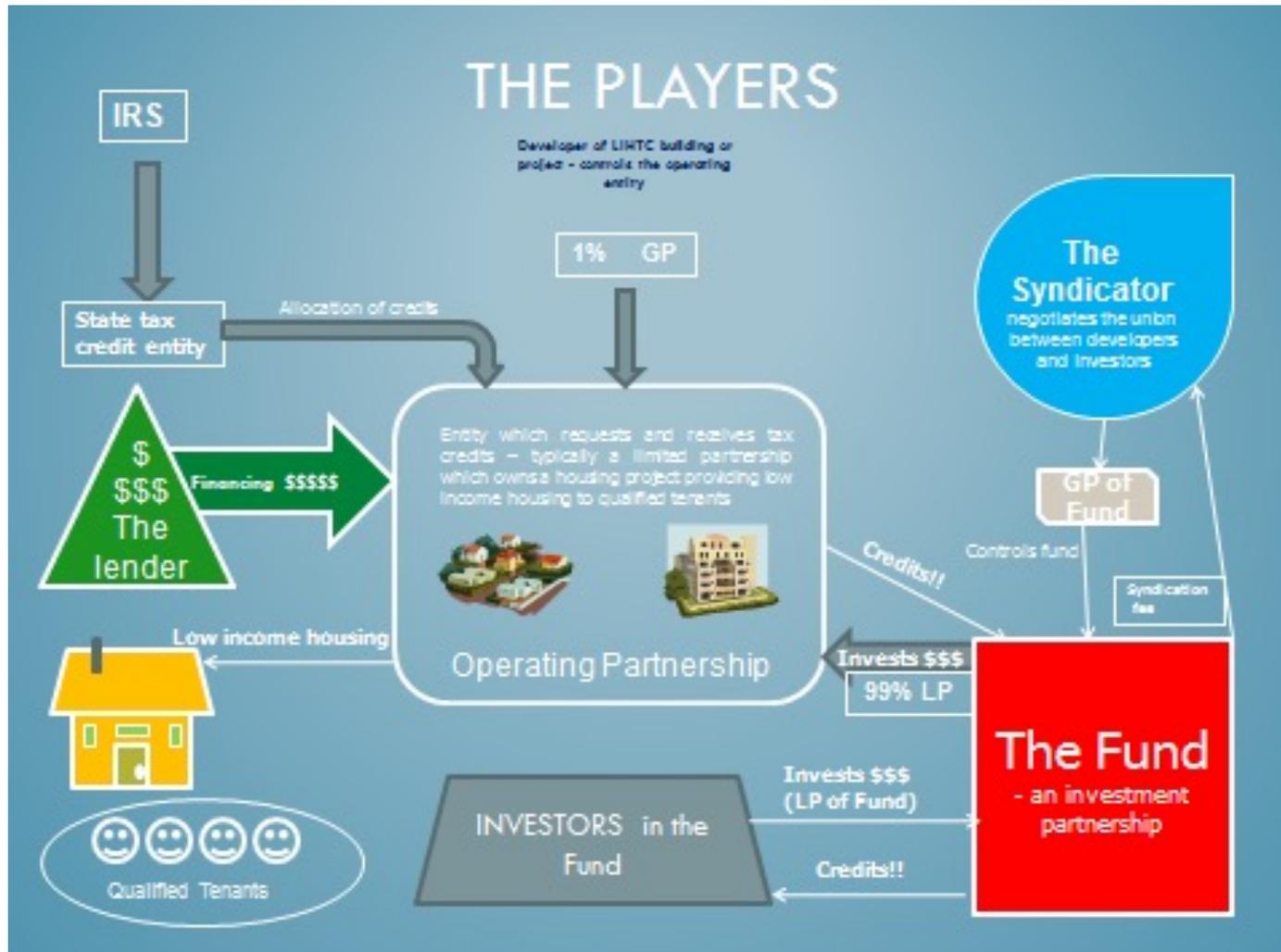
## What's in it for the investor?

- Tax credits – Dollar for dollar reduction of tax liability
    - LIHTC and other tax credits
  - Tax losses – Tax benefit is based on the tax bracket
    - Principally caused by interest on the debt and depreciation
- 
- Credits and losses flow directly through to the partners.
  - Investors contribute capital in exchange for these benefits.

# The Players

- US Treasury
- State Allocating Agency
- The Developer – usually the Non-Profit CDC
- Investor
- Lenders
- Appraiser
- General Contractor
- Architect & Engineer
- Surveyor
- Site Inspector/construction inspector etc.
- Environmental Engineer
- Title Agent
- Audit and Tax Firm
- Development Consultant
- Attorneys
- Relocation Specialist
- The developer's team – Development, Finance & Asset Management

# Deal Cycle from Construction to Occupancy



## The Players

### Poll 2

1. If you were to think about a recent development project, would you be able to name the Players on your team?
  - A. Yes
  - B. Some, but not all
  - C. I could not name a single one!

## Deal Cycle from Construction to Occupancy

- US Treasury – Authorizes Tax Credits made available to each state



- State Allocating Agency – Qualified Allocation Plan (QAP)



- Development Project (Restoration Housing LP) – wholly owned by a CDC applies for an allocation of tax credits



- The Financial Team - Direct Investor or Syndicator
  - Construction Lenders
  - Permanent Lenders
  - Bridge Loan Lender (bridging equity)
  - Bond Trustee – if you have a 4% Bond Deal



- If a Syndicator is used:
  - Proprietary Fund: A pool of property investments arranged by a syndicator for a single investor
  - Multi Investor Fund: Several investors invest in a pool of property investments arranged by a syndicator

## Deal Cycle from Construction to Occupancy



- Construction Commences – Construction Contractor & Others (see construction budget)



- Construction is near completion....



- Your organization's asset management department & property management will be introduced to the team prior to construction completion. They are responsible for leasing up the building as tax credits can only be earned if the units are occupied. Any delay from the projected lease up schedule will result in an adjustment to the price that the investor originally agreed to pay.



- Construction is completed, Certificate of Occupancy is Received, Units are occupied

## Qualified Allocation Plans

- Qualified Allocation Plan By Ed Gramlich, Director of Regulatory Affairs, National Low-Income Housing Coalition – [See the Handout](#)
- The federal Low-Income Housing Tax Credit program requires each state agency that allocates tax credits, generally called a housing finance agency, to have a Qualified Allocation Plan (QAP). The QAP sets out the state's eligibility priorities and criteria for awarding federal tax credits to housing properties. In some states, the QAP also sets out threshold criteria for noncompetitive 4% tax credits and any state low-income housing tax credits.
- The QAP is a tool advocates can use to influence how their state's share of annual low-income housing tax credits is allocated to affordable housing properties. Advocates can use the public hearing and comment requirements to convince their housing finance agency to better target tax credits to properties that house people with extremely low incomes, locate projects in priority areas, and preserve the existing stock of affordable housing.

# Qualified Allocation Plans

*continued*

## SUMMARY

- *The QAP is a document that states, and a few local agencies, must develop in order to distribute federal Low-Income Housing Tax Credits (LIHTCs), which can be awarded only to a building that fits the QAP's priorities and criteria. Each QAP must spell out a housing finance agency's (HFA's) priorities and specify the criteria it will use to select projects competing for tax credits. The priorities must be appropriate to local conditions.*

## QAP

### Poll 3

1. If your state's QAP indicated the need for workforce housing, and your project was strictly for people who had formerly experienced homelessness, do you think your project would be selected to receive LIHTC?
  - A. Absolutely, homelessness is such an important issue to tackle
  - B. No, it does not meet the qualifications outlined in the QAP
  - C. Not sure

# Break

- We will take a 10-minute break.
- Remain logged in during the break.
- Please return promptly.
  - This is especially important for participants seeking CPEs so that you may receive full credit.
- Instructors will take questions during the break.

## Checking In

### Poll 4

*Please use the **Chat** to share what has been most helpful.*

1. Have you learned anything today that you already know will directly impact your work?
  - A. Yes, definitely.
  - B. Maybe.
  - C. No, definitely not.
  - D. Not sure.

# **Letter of Determination - LIHTC**

Commonwealth of Massachusetts

***See Handouts for Actual Letter of Determination***

*Restoration Housing Limited Partnership*

*New Whitney Street*

*Boston, MA 02115*

*RE: Restoration Housing LP*

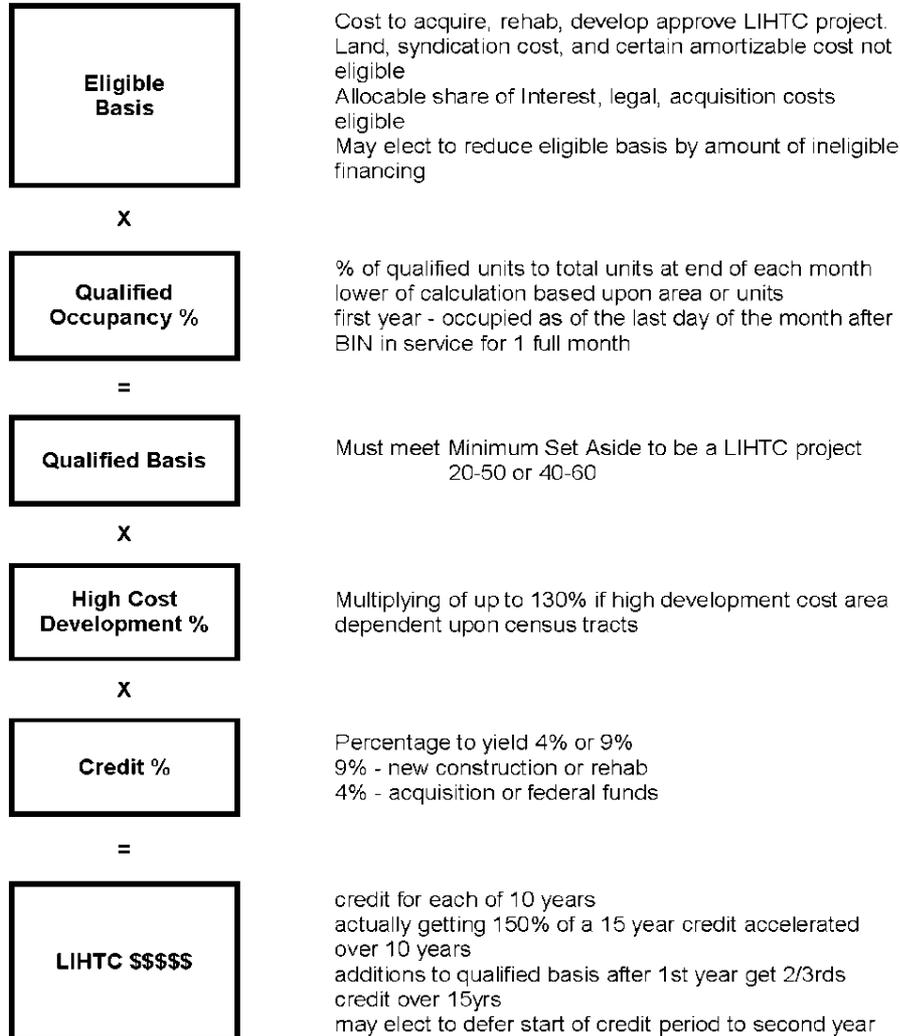
*Multifamily Rental Apartments*

*Allowable Annual Federal Credit Amount: \$896,025 for 10 years –  
start in 2016*

## **LIHTC Program – 4% and 9%**

- The federal government awards both 4% credits (prior to 2021, this rate fluctuated with inflation) and 9% credits
- The 9% credits are generally awarded to more rural communities with depressed rent structures. These projects do not have enough cash flow to use mortgage debt to construct or rehab properties, so they rely more heavily on subsidy.

# Overview of LIHTC



## LIHTC

### Poll 5

1. To receive the greatest number of LIHTC dollars for the items in the calculation that your agency can control, it is important to maximize:
  - A. The eligible basis
  - B. The number of units to be occupied by those meeting the income requirements (eligible units)
  - C. The credit percentage
  - D. A & B
  - E. A & C

## Calculation of the Estimated Credit for Restoration Housing LP

Acquisition Credit – **See handout**

- Projected Eligible Basis = 12,095,000
- Qualified Occupancy = 100%
- Credit % = 3.23 (used to be determined monthly by the federal government – now fixed at 4%)

## Calculation of the Estimated Credit for Restoration Housing LP

Rehab Credit - **See handout**

- Projected Eligible Basis = 11,858,054
- Qualified Occupancy = 100%
- High Cost of Development Multiplier = 130%
- Credit % = 3.23 (used to be determined monthly by the federal government – now fixed at 4%)

## Calculation of the Credit for Restoration Housing LP

*Please use the **Breakout Room** to work through the answers.*

- Take 10 minutes to calculate the estimated tax credits that Restoration will have to sell to an investor for the:
  1. Acquisition Cost (no use of the high cost of development in the calculation) **See handout**
  2. Rehab Costs (use of the high cost of development in the calculation) **See handout**

## Estimated Credit Calculation - See handout

	Acquisition Cost	Rehab Cost
Eligible Basis	\$12,095,000	\$11,858,054
Qualified Occupancy (Applicable Fraction)	100%	100%
Qualified Basis	\$12,095,000	\$11,858,054
High Cost of Dev	n/a	130%
Credit Percentage	3.23%	3.23%
LIHTC Dollars per year for 10 years	\$390,668.50	\$497,919.69
Total Max Annual Credits		\$888,588.19

## **The finance person's role in maximizing LIHTC credits**

The finance staff can help ensure that the agency maximizes the credits that it receives by making sure that all costs are captured on a timely basis.

What can go wrong?

## **The finance person's role in maximizing LIHTC credits – What can go wrong?**

- Development invoices go to multiple team members – some to finance dept, some to development consultant
- Development invoices arrive long after the cost cert has been completed.
- Work performed in the year after the building is placed in service

## **The finance person's role in maximizing LIHTC credits – What should you do?**

- Take control and have invoices sent directly to the finance department. They can be circulated afterward for approvals.
- Understand who is performing work and billing you so that you can chase late invoices.
- Work with your development staff to make sure that all possible work is completed in the year that the building is placed into service.

# QUESTIONS?

- Please use the **Chat** to submit questions.
- Instructors will remain on the line to answer remaining questions.

**Next Session: Financial Projections,  
Investor Letters of Intent**  
*No session next week (Yom Kippur)*

**Date: October 12, 2022**

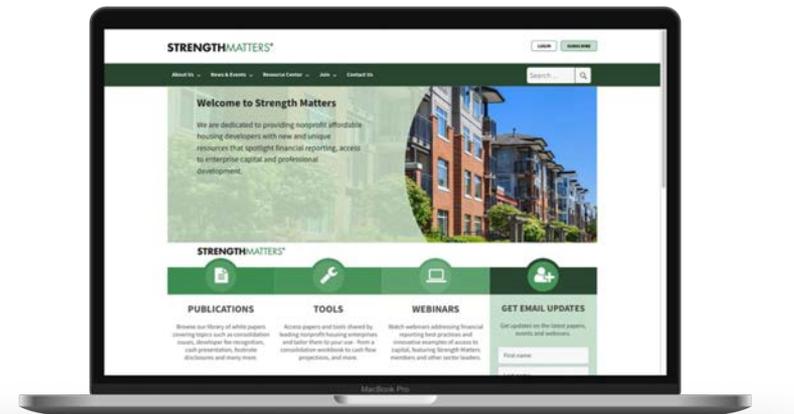
**Time: 1:00 – 3:00 PM Eastern**

# EVALUATION POLL

**Your feedback is important to us!**

- ✓ **Please complete the evaluation poll for this session.**
- ✓ **Email [info@strengthmatters.net](mailto:info@strengthmatters.net) with any questions or concerns.**

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# CONTACT INFORMATION

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