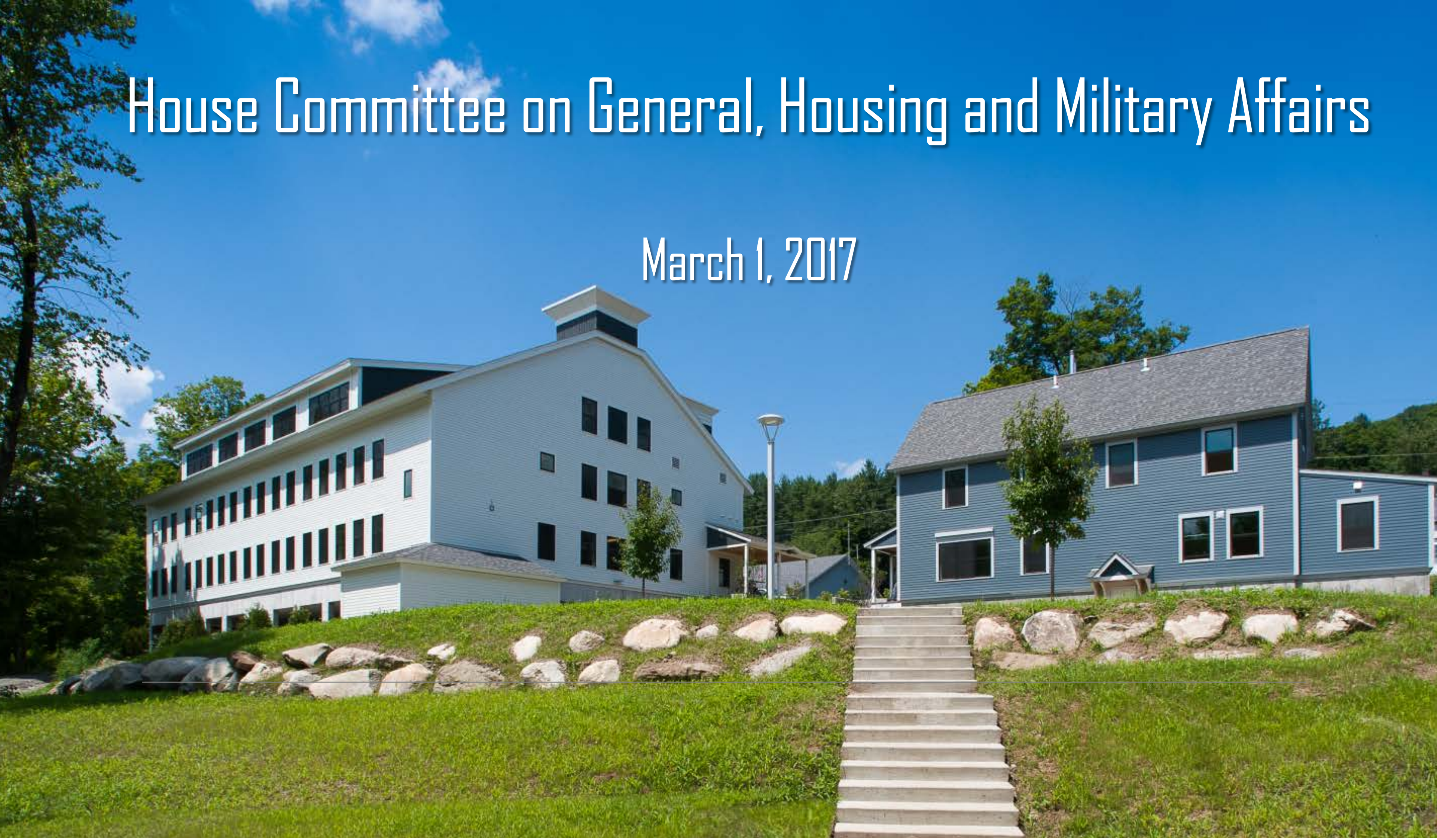
House Committee on General, Housing and Military Affairs

March 1, 2017



Federal Low Income Housing Tax Credits

Shifts in Federal Rental Affordability Delivery Mechanisms

Public Housing

Section 8

Tax Credits

Federal Low Income Housing Tax Credit

Created by the Tax Reform Act of 1986.

Intended to offer investors incentive to invest in affordable rental housing.

Provides a 10-year stream of federal tax credits in exchange for equity investment.

Promotes affordability by minimizing debt service.

Projects must meet occupancy and affordability criteria.

IRS sets rules. Administered by VHFA.

LIHTC Project Eligibility Requirements

Occupancy

- At least 20% of the units occupied by families with incomes ≤50% of HUD AMI; or
- At least 40% of the units occupied by families with incomes ≤60% of the HUD AMI.

Affordability

- Gross rent cannot exceed 30% of the applicable qualifying income.
- Rent does not fluctuate based on size of family in unit.

Maximum Initial LIHTC HH Income

Location	1 Person	2 Persons	3 Persons
Windham County	$27,420	31,320	35,220
Windsor County	30,420	37,470	39,090
Chittenden County	35,280	40,320	45,360
Essex County	27,000	30,960	34,800
Rutland County	27,060	30,960	34,800
Washington County	30,480	34,800	39,160
Lamoille County	27,840	31,800	35,760

Maximum LIHTC Gross Rents

Location	1 BR	2 BR	3 BR
Windham County	$734	880	1,017
Windsor County	814	976	1,126
Chittenden County	945	1,134	1,311
Essex County	725	870	1,005
Rutland County	725	870	1,005
Washington County	816	979	1,131
Lamoille County	745	894	1,032

Other Features

Two types of LIHTC

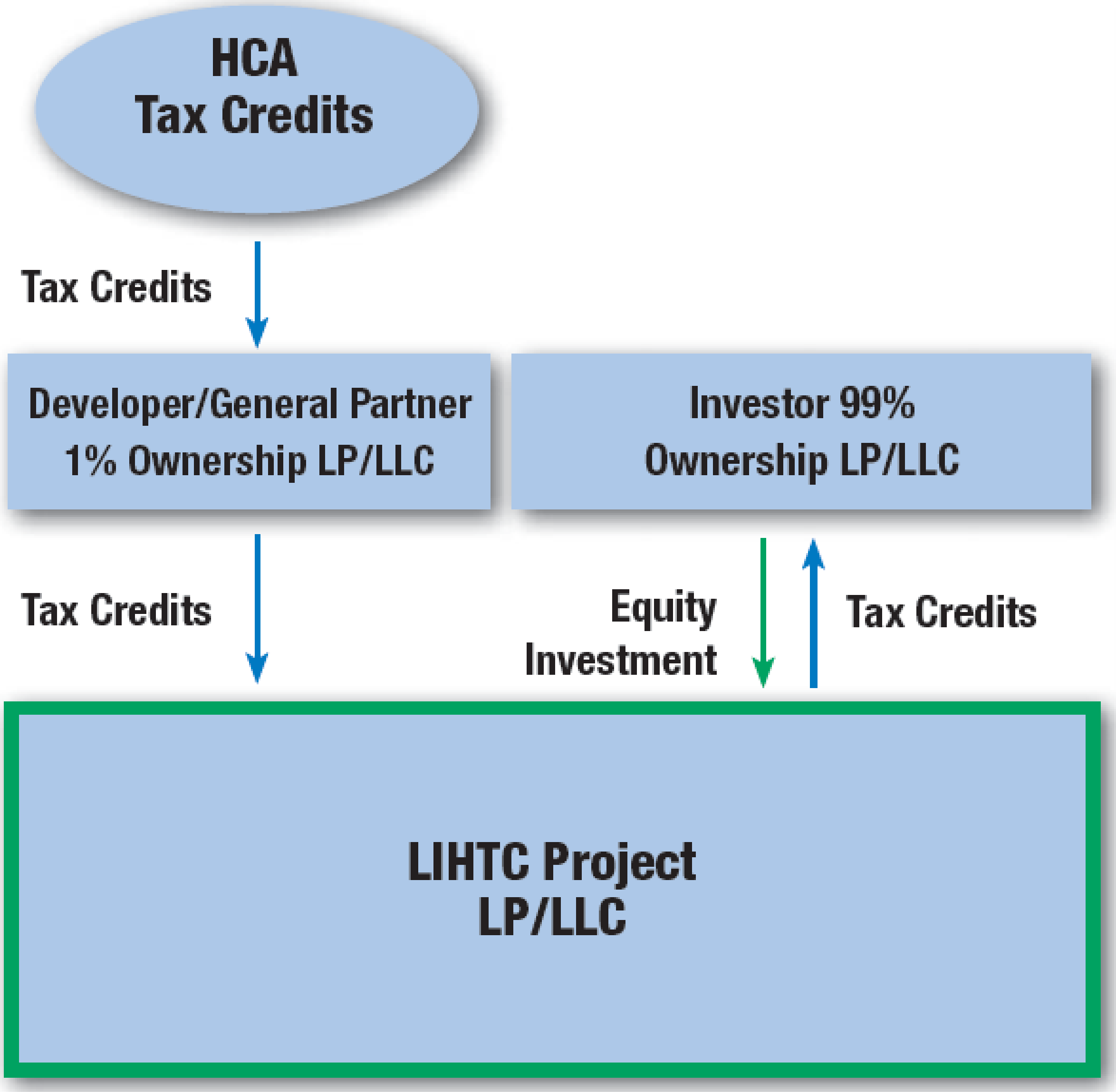
- Allocated Credits (“9%”)
- Bond Credits (“4%”)

Federally required 30-year use restriction.

VHFA requires a restrictive covenant ensuring that low income occupancy in assisted units continues in perpetuity.

Nonprofits arrange in advance through right of first refusal to purchase property after initial 15-year compliance period for pre-determined price (outstanding debt + any tax liability).

Typical Legal Structure: Direct Investment

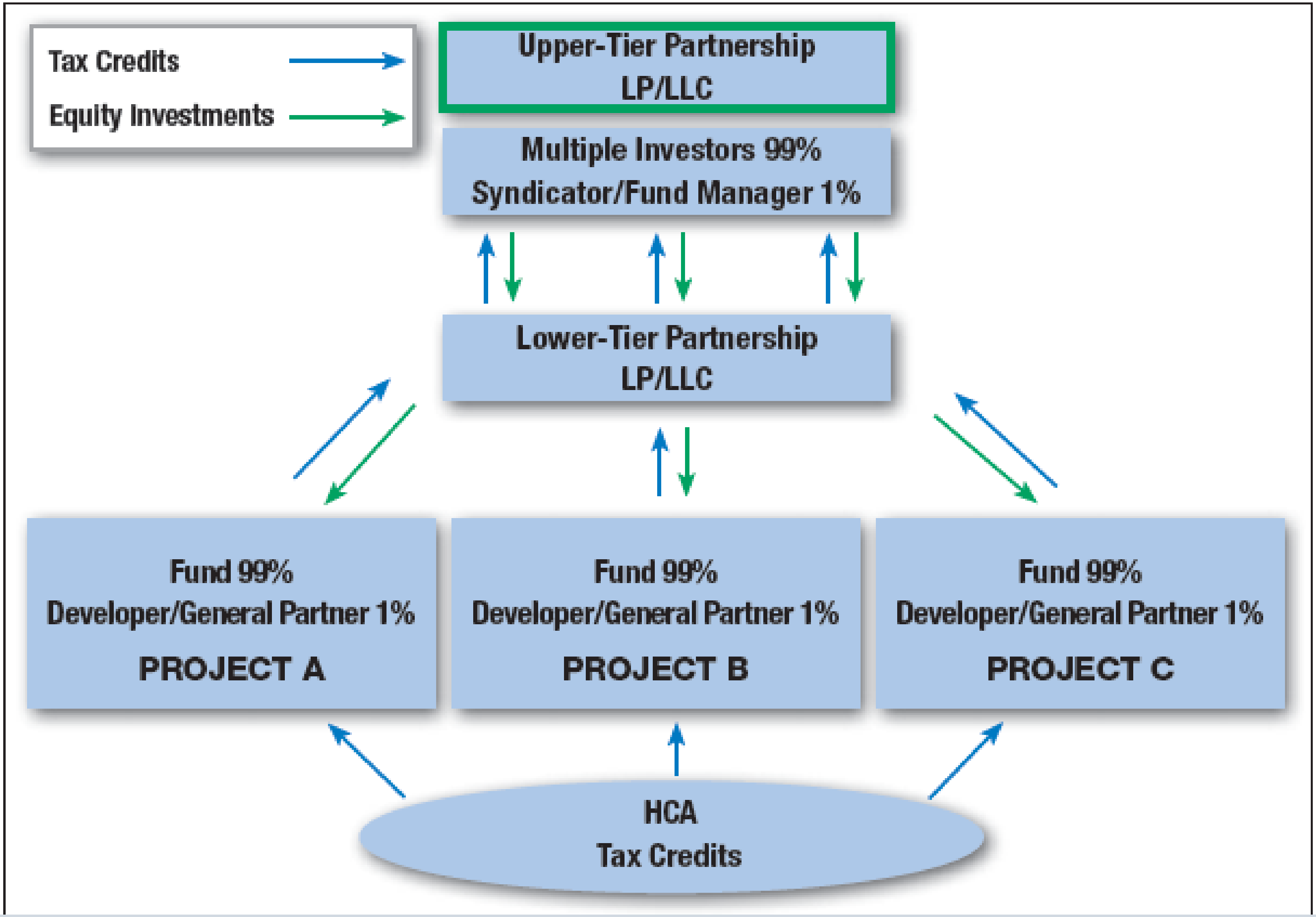


Flow of Tax Credits and Equity

Direct Investment

- Developer receives tax allocation from the HCA for the LIHTC project.
- Developer establishes a limited partnership (LP) or a limited liability company (LLC) and is 1% owner of the LIHTC Project LP/LLC.
- Investor acquires 99% ownership interest in the LIHTC project, contributes equity to the project, and claims use of tax credits on tax returns.

Typical Legal Structure: Fund Investment



Fund Investment Continued

Flow of Tax Credits and Equity

Fund Investment

- At the lower tier, each developer receives tax credits from the HCA for the LIHTC project.
- Each developer establishes a limited partnership (LP) or a limited liability company (LLC) and is 1% owner of the lower-tier LIHTC project. The lower-tier partnership (LP/LLC) acquires 99% ownership interest in multiple LIHTC projects (Projects A-C). The lower-tier partnership is 99% owned by the upper-tier partnership (LP/LLC).
- At the upper tier, the syndicator/fund manager receives tax credits passed through from the lower-tier LP/LLC.
- The syndicator/fund manager establishes a limited partnership (LP) or a limited liability company (LLC) and is 1% owner of the fund. The 99% ownership interest in the fund is held by multiple investors.
- Investors contribute equity to the fund and receive tax credits on a pro rata basis.
- Pro rata equity investments flow from the upper-tier fund to the lower-tier LIHTC projects.

Calculating LIHTC Equity Available

Determine eligible basis.

Compute percentage of total units which are tax credit units.

Determine qualified basis by multiplying eligible basis by percentage of LIHTC units.

If applicable, multiply qualified basis by QCT/DDA adjustment of 130%.

Multiply qualified basis by 9% (percentage changes monthly) or 4% (bond credit).

Result is tax credit which can be taken annually for 10 years.

Multiply LIHTC available by credit pricing.

The Investors' Perspective

Why do investors participate?

- Community Reinvestment Act (banks).
- Return on investment.
- Local Involvement.

What are the investors’ risks?

- Loss of credits.
- Reduction in return due to late credit delivery.
- Poor financial performance which results in need for additional capital investment.
- Liquidity risk (hard to sell interests on secondary market).

Other Tax Credits

Federal Historic Rehabilitation Credit

- One time tax credit equal to 20% of the qualified rehabilitation costs in a certified historic building.
- Rehab must be approved by US Department of Interior (National Park Service).
- Credit is available when project is placed in service.

State Tax Credits

- Affordable Housing Credit.
- Downtown Credits.
- State Historic Credits.

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Building possibilities.

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