



"We're Housing Utah"



INTRODUCTION TO LOW INCOME HOUSING TAX CREDITS

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Low Income Housing Tax Credits



- The LIHTC Program was created by the 1986 Tax Reform Act.
- The Internal Revenue Service and Utah Housing Corporation jointly administer the LIHTC program in Utah.



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Low Income Housing Tax Credits



- Tax credits *are not* an operating subsidy, but provide a subsidy for the construction of affordable rental units.
- Tenant eligibility is based on income at or below 60% of area median income (AMI).



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Utah Housing Corporation (UHC) was designated by the Utah state legislature to be the sole allocator of federal and state low income housing credits.

We are the only game in town!



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Qualified Allocation Plan

UHC must establish an annual Qualified Allocation Plan (QAP) which explains the criteria it will use to make awards of housing credit.

On an annual basis the QAP is revised.

- Public input meetings →
- Staff revisions →
- Approval of UHC's Board of Trustees →
- Approval and signature of the Governor.



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- One application round each year. This year, applications for 2012 credits are due October 3, 2011.
- Awards are made mid December.
- UHC receives three applications for every one that is funded, and is able to fund between 7 and 12 projects each year.



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Some of the scoring elements in UHC's QAP include:

- Set aside units for Special Needs populations;
- Transit oriented development;
- Development in rural targeted areas;
- LEED Certification or Enterprise Green Certification;
- Historic character of a building (acquisition/rehabs);
- Rent targeting stratification (0 through 60% of AMI); and
- Mixed income (affordable and market rate).



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Long Term Affordability

- The Internal Revenue Code requires an initial compliance period of 15 years, beginning upon completion of construction.
- For an additional period of up to 84 years UHC maintains a deed restriction on the property requiring its use for affordable rental housing.
- Throughout the entire period of affordability, UHC monitors, audits, and inspects the property to ensure compliance.



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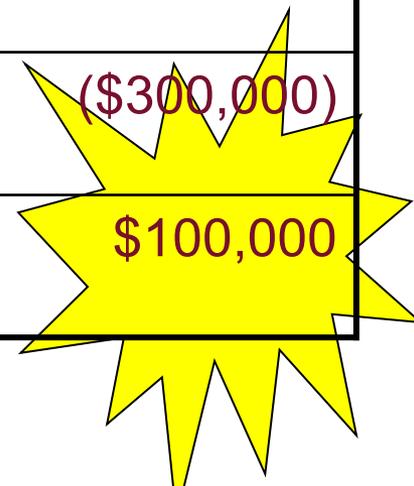
Who wants a tax credit?



	Mom and Pop Apartments
Net income from operations	\$1,000,000
Tax deductions	\$0
Taxable income	\$1,000,000
Tax liability at 40% tax rate	\$400,000
LIHTC's	\$0
Net tax liability	\$400,000

	Mom and Pop Apartments	Tax deductions
Net income from operations	\$1,000,000	\$1,000,000
Tax deductions	\$0	(\$300,000)
Taxable income	\$1,000,000	\$700,000
Tax liability at 40% tax rate	\$400,000	\$280,000
LIHTC's	\$0	\$0
Net tax liability	\$400,000	\$280,000

	Mom and Pop Apartments	Tax deductions	Tax credits
Net income from operations	\$1,000,000	\$1,000,000	\$1,000,000
Tax deductions	\$0	(\$300,000)	\$0
Taxable income	\$1,000,000	\$700,000	\$1,000,000
Tax liability at 40% tax rate	\$400,000	\$280,000	\$400,000
LIHTC's	\$0	\$0	(\$300,000)
Net tax liability	\$400,000	\$280,000	\$100,000





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The Role of the Investor

Once a project receives an award of housing credit it must sell those credits to generate equity for the affordable housing development.

- The investor purchases each dollar of credit at a discount. In Utah today an average price is approximately \$0.85 per dollar of credit. Therefore an award of annual credit in the amount of \$600,000 would result in equity of \$5,100,000.

$\$600,000 \times 10 \text{ years} = \$6,000,000$ of tax credits

$\$6,000,000 \times \$0.85 = \$5,100,000$ of cash to the development



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- The investor now has \$6,000,000 of credits which it purchased for \$5,100,000. It may apply these credits against its tax liability over a 10 year credit period.
- The developer now has \$5,100,000 of CASH with which to build its rental housing.
- In exchange for these benefits, the project must agree to keep its rents lower than market for 99 years.

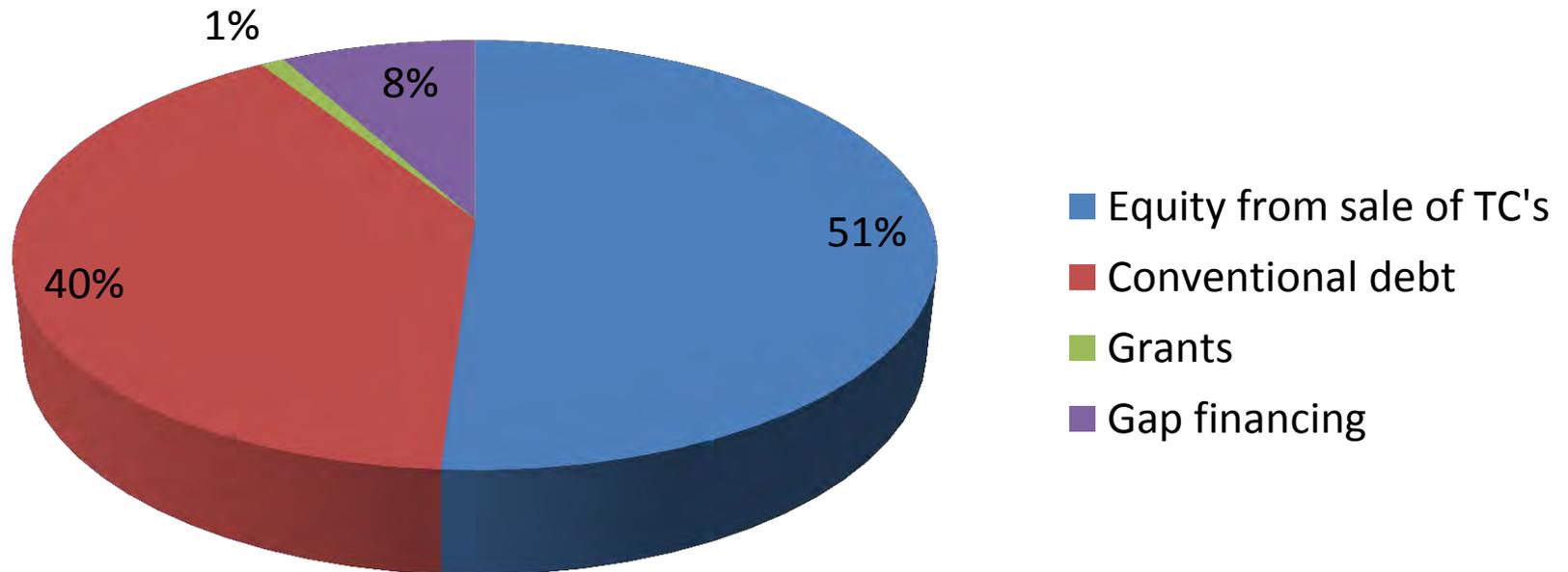


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Tax Credits Bring Cash (Equity) to the Deal

Typical Sources of Financing





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Snapshot of UHC LIHTC Properties

- 399 projects
- 18,697 LIHTC units
- 21,647 total units
- 155 small projects (25 or fewer units) or 39% of all projects
- 56 Senior projects or 14% of all projects
- 106 Acquisition/rehabilitation projects or 26% of all projects
- 6 Chronically homeless projects (100% chronically homeless) for a total of 446 units
- Approximately 950 additional set aside units for homeless/near homeless