LOW INCOME HOUSING TAX CREDIT (LIHTC) PROGRAM

What is the Low Income Housing Tax Credit (LIHTC)?

- Authorized by Section 42 of the Internal Revenue Code
- Claimed over a period of 10 years with a Compliance Period of 15 years.
- Allocated to entities that build or rehabilitate rental housing and commit to maintaining affordable rents for a minimum of 30 years.
- Designed to fill a funding gap between total development costs and the loans the project can support to finance the project.

Types of LIHTC

- **9% Tax Credit**
  - Competitive (Funding Rounds)
  - Can be used with any financing besides tax-exempt
  - Applications only accepted at specified times
  - Limited supply of credits

- **4% Tax Credit**
  - Non-competitive (may be applied for at any time) unless seeking MSHDA gap financing
  - Used with MSHDA Tax-Exempt Bond financing
  - No application deadlines unless seeking MSHDA gap funding
  - No hard limit on supply of credits

How is LIHTC allocated?

- MSHDA is responsible for creating a plan (the QAP) that determines how, where, and which types of rental projects will receive preference in the allocation process
- MSHDA holds funding rounds in which project proposals are submitted, competitively scored, and reviewed to award the LIHTC
- The QAP and Scoring Summary can be found on MSHDA's website www.michigan.gov/mshda

Project Types & Income Levels

- Projects Can Be:
  - New Construction or Rehabilitation
  - Family, Elderly, or Supportive Housing
  - Multi-family, Mixed Use, Scattered Site, Single Family, Duplex, Townhome, etc.
- Income Levels:
  - ≤ 60% AMI for LIHTC
  - Can include Market Rate units

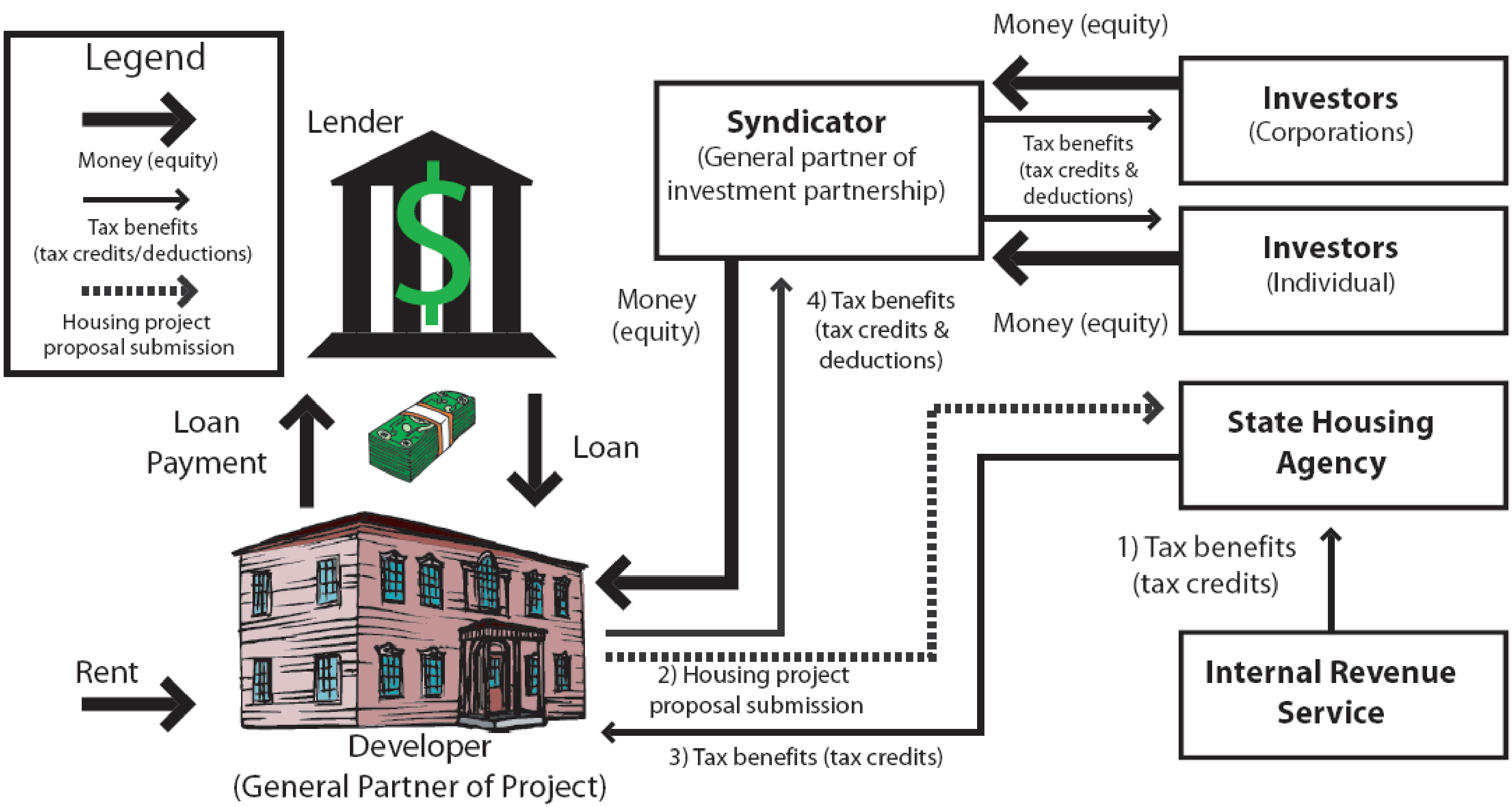
Financing Used in Conjunction with LIHTC

- Taxable Bonds
- Tax-exempt Bonds
- Conventional Financing
- HOME
- RHS
- CDBG
- FHLB
- Grants
- Section 8
- Section 236
- Historic Rehabilitation Financing
- Brownfield Financing

How is LIHTC used?

- LIHTC is allocated to project owner (typically an LP or LLC)
- Project owner typically made up of a developer entity (GP or Member) and an investor entity (LP or Member)
- The developer oversees development of the project and has "day-to-day" responsibilities
- The investor contributes cash equity to pay for development-related costs and gets allocated a majority share of the LIHTC to offset their taxable income in return
- Overall Benefits:
  - The project receives equity from the investor to get built/rehabbed
  - The investor member gets the LIHTC to offset their taxable income

Typical LIHTC Structure (also see handout)



If a project is allocated $100,000 of tax credits annually for 10 years and sells them for $0.90 on the dollar, they will generate $900,000 of equity to use towards project costs.

Year	1	2	3	4	5
Tax Credits	*$100,000*	*$100,000*	*$100,000*	*$100,000*	*$100,000*

Year	6	7	8	9	10
Tax Credits	*$100,000*	*$100,000*	*$100,000*	*$100,000*	*$100,000*

Total Tax Credits	$1,000,000
Sale Price From Investor	$0.90
Equity from Investor to be Used for Project Costs	$900,000

SOURCES	
Mortgage	$350,000
Equity from Sale of Tax Credits	$900,000
Total	$1,250,000

USES	
Acquisition Costs	$150,000
Hard Construction Costs	$750,000
Other Soft Costs	$350,000
Total	$1,250,000

What This Means

- Bringing more equity to the project through the sale of LIHTC allows a project to have a smaller mortgage, which means the project should be able to charge lower rents.

Current Funding Priorities - 9% LIHTC

Current Priorities

- Project Location
  - Walk Score
  - Central Cities
  - Developments Near Employment Center
- Mixed Income Developments

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Current Priorities (cont'd)

- Affordable Housing in Strong Markets
- Historic Preservation
- Neighborhood Reinvestment Strategy
- Strength of Development Team

Current Priorities (cont'd)

- Cost and Credit Reasonableness
- Preservation of Existing Units
- Permanent Supportive Housing

QUESTIONS???