Using Low Income Housing Tax Credits and New Markets Tax Credits for Renewable Energy Projects

October 2, 2019
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Introduction to NMTC program

• US Department of Treasury
  – Community Development Financial Institutions Fund (CDFI)
  – 39% tax credit on total development cost
  – 7 year compliance period

• $3.5 billion in allocation per year awarded to Community Development Entities (CDEs)
  – CDEs deploy credits to qualifying projects
  – Each CDE has different service area, investment goals

• NMTCs can pay for 20-25% of total cost of development
Introduction to NMTC program

- **Eligibility – Geographic**
  - Project must be located in a low-income census tract

- **Eligibility – Business Type**
  - Flexible for both real estate and non-real estate projects
  - Prohibited activities:
    - Gaming
    - Golf courses
    - Farming
    - Liquor stores
    - Massage/hot tub parlors
    - Single family, residential rental properties
$10 million community facility

- A $10 million community facility is needed on a reservation.

- Every economic development project is unique, but there are two things common to all:
  - They are all a mix of equity and debt.
  - They all have a gap.

- New Markets Tax Credit projects help secure financing that is equivalent to equity and will fill the financing gap.
NMTC hypothetical project

- Government or private grants or bank loans: $7 million
- NMTC Investor capital: U.S. Bank, Capital One, etc.: $3.5 million

Travois New Markets Investment Fund:
- $10 million Qualified Equity Investment

Travois New Markets:
- $7 million senior loan
- QALICB: community facility
- $3 million subordinated loan

You know where you want to go, let us pull some of the weight for you...
Lucy F. Covington Government Center – Confederated Tribes of the Colville Reservation
Nespelem, WA
Bois Forte Community and Government Services Center – Bois Forte Band of Lake Superior Chippewa Indians
Nett Lake, MN
Yukon Koyukuk Elder Assisted Living Facility – Ruby, Nulato, Louden, Koyukuk and Kaltag Tribes
Galena, AK
Lac Vieux Desert Health Center
Winnebago Educare
Coyote Valley Hotel
Frequently asked questions

Q: Can I use NMTCs in conjunction with other economic development programs?
A: Yes. State or federal economic development grants and loans can be combined with NMTC equity. Tribal funds or inter-Tribal cooperation funding programs can be blended with NMTC financing.

Q: What is the minimum project size for Travois New Markets?
A: $5 million

Q: What is the timeline for accessing this funding?
A: Program timeline vs development timeline...
What is the LIHTC Program?

- Section 42 of the IRS Code
- Tax Reform Act of 1986
- Goal = to encourage private investment in affordable housing
- The LIHTC program generates tax credits for investors
- Financed development/preservation of more than 2.1 million low-income units nationwide
- Provided important leveraging tool for over 28,000 developments
- The credit is a reduction in tax liability (not a tax deduction)
- 10 year credit
What is the LIHTC process?

IRS $2.35 per capita

Application

KHA General Partner 0.01% Owner

Investor Limited Partner 99.99% Owner

State Limited Partnership

LIHTCs

S:S reduction in federal tax liability

Equity Investor (TBD)

15% - 20%

80% - 85%

Housing Construction
What is a "tax credit" & why do investors want to buy them?

A reduction of taxable income

$1,000,000 credit allocation

Investor tax liability $2,000,000

A $1 for $1 reduction in the amount of taxes paid

Investor tax liability after credit $1,000,000 ($2M - $1M = $1M)
How do LIHTCs help my housing project?

- $1,000,000 tax credit allocation
  - x 10 years
  - Invest $0.80 per $1 of tax credits
  - $8,000,000

$10M Construction
- Investor
- Tribal Funds
# Preliminary Cost Assumptions

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount 1</th>
<th>Amount 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of existing units</td>
<td>$525,000</td>
<td>$75,000</td>
</tr>
<tr>
<td>Onsite infrastructure</td>
<td>$1,751,530</td>
<td>$97,307</td>
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<tr>
<td>New construction (@ $186 per sq ft)</td>
<td>$2,789,000</td>
<td>$154,944</td>
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<tr>
<td>Rehab of existing units</td>
<td>$700,000</td>
<td>$38,889</td>
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<tr>
<td>Community amenity allowance</td>
<td>$500,000</td>
<td>$27,778</td>
</tr>
<tr>
<td>Contractor fees</td>
<td>$558,460</td>
<td>$31,026</td>
</tr>
<tr>
<td>Construction contingency (10%)</td>
<td>$454,746</td>
<td>$25,264</td>
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<tr>
<td>Professional fees (architect/survey/engineer/attorney/geotech/other)</td>
<td>$774,697</td>
<td>$43,039</td>
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<tr>
<td>Other soft costs (market study/environmental/TCAC fee/final cost cert/etc)</td>
<td>$374,827</td>
<td>$20,824</td>
</tr>
<tr>
<td>Developer fee (to YIHA)</td>
<td>$500,000</td>
<td>$27,778</td>
</tr>
<tr>
<td>Consultant fee (Travois)</td>
<td>$100,000</td>
<td>$5,556</td>
</tr>
<tr>
<td>Reserves</td>
<td>$419,775</td>
<td>$23,321</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$9,448,035</strong></td>
<td><strong>$524,891</strong></td>
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</tbody>
</table>
## Paying for the Costs

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Total Development Cost</td>
<td>$9,448,035</td>
</tr>
<tr>
<td>Less Investor Equity from Tax Credits (inclusive of federal, state and solar equity)</td>
<td>$8,289,768</td>
</tr>
<tr>
<td>= YIHA Initial Contribution</td>
<td>$1,158,267</td>
</tr>
<tr>
<td>Less value of existing units (not a real expense to YIHA)</td>
<td>$525,000</td>
</tr>
<tr>
<td>= YIHA Initial Contribution</td>
<td>$633,267</td>
</tr>
<tr>
<td>= Initial YIHA Contribution Per Unit</td>
<td>$35,182</td>
</tr>
</tbody>
</table>
AFTER DEVELOPER FEE TO YIHA

YIHA Initial Contribution $633,267
Less Developer Fee (non-program income) to YIHA $500,000

* Approximately 6-9 months after project completion

YIHA NET CONTRIBUTION $133,267

YIHA NET CONTRIBUTION PER UNIT $7,404
What are the LIHTC program requirements?
Income Limits & Rents

Income must be **certified at move-in** but income increases **do not** affect eligibility

- Must include 100% of the per cap income from gaming
- The first $2,000 in per cap income from interest held in trust or restricted land is excluded
Income Limits & Rents

Area Median Income (AMI)

- 80%
- 70%
- 60%
- 50%
- 40%
- 30%

Federal max

State preferences

NAHASDA

LIHTC
LIHTC - A TOOL IN THE TOOLBOX

Tribal LIHTC Precedent
Tribal LIHTC Precedent

What have other tribes accomplished with LIHTCs?

Who can you build for?
- Owner-Operator
- Non-profit
- For-profit
- Tribal

With the LIHTC program, you can also...

LIHTC developments in Indian Country since 1995

What have other tribes accomplished with LIHTCs?

Who can you build for?
- Low income
- Extremely low income
- Families
- Special needs
- Elderly
- Tribal members
- Workforce
- Students

Single Family Homes

Duplexes, Triples, Fourplexes

Apartments

Community Facilities

Scattered sites / subdivisions
With the LIHTC program, you can also...

- Design the Homes
- Encourage Homeownership
- Design for Special Needs Populations
- Improve Energy Efficiency
- Rehabilitate Existing Housing
- Rehabilitate Existing Community Facilities
LIHTC developments in Indian Country since 1995

**HOUSING**
- Total Projects: 191
- Total Homes: 5404
- Total Costs: $946,103,397
- Total Investor Equity: $675,622,001

**ECONOMIC DEVELOPMENT**
- Total Projects: 21
- Total Costs: $399,072,878
- Total Investor Equity: $73,430,613

**TOTAL NATIVE ORGANIZATIONS**: 92
$675 Million
Amount of investor equity raised for over 190 Low Income Housing Tax Credit projects in 19 states

5,404 homes built or rehabilitated

AHP
AFFORDABLE HOUSING PROGRAM (AHP) GRANTS RAISED FOR PROJECTS:
$28,632,390
Mille Lacs Corporate Ventures
LADY LUCK ESTATES
Colville Homes II
20-unit New Construction

2012 Charles L. Edson Tax Credit Excellence Award Winner (Rural Housing)
Yavapai-Apache Homes III
30-unit New Construction
Yavapai-Apache Homes IV
36-unit New Construction
• **Location:** Acoma Pueblo, New Mexico
• **Development Type:** New Construction, multifamily
• **Total Homes:** 30 units in three buildings
• **Project Stage:** Complete
• **Total Investor Equity:** $7,215,076

• **Construction Cost:** $7,200,000
• **Funding Source:** LIHTC
• **Two Design Variations:**
  - 2 bedrooms, 2 bathrooms – 1,114 sq ft
  - 3 bedrooms, 2 bathrooms – 1,561 sq ft
- **Location:** Yreka, California
- **Development Type:** New Construction
- **Total Homes:** 30
- **Project Stage:** Complete
- **Total Investor Equity:** $10,874,857

- **Funding Source:** LIHTC
- **Three Design Variations:**
  - 3 bedrooms, 2 bathrooms – 1,610 sq ft
  - 4 bedrooms, 2 bathrooms – 1,725 sq ft
  - 5 bedrooms, 2.5 bathrooms – 2,480 sq ft
Questions?

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