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Low Income Housing Tax Credit 101



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Low Income Housing Tax Credit (LIHTC)

- Created by the Tax Reform Act of 1986, Section 42 of the Internal Revenue Code
- Development community incentive program for the creation and preservation of affordable housing
- Administered by the State Housing Finance Agency
- Credits allocated based on state population, per capita



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Tax Credit vs. Deduction

- Tax Credit - dollar for dollar reduction in tax liability
- Tax Deduction – offset to pre-tax income
- LIHTC projects make use of both types of benefits



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Basic Program Requirements

LIHTC Projects must include:

- Income Restrictions
- Rent Restrictions
- Occupancy Restrictions



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Income Restrictions

Minimum Requirements:

- At least 40% of the property must be set aside for families earning below 60% of Area Median Income, or
- At least 20% of the property must be set-aside for families earning below 50% of the Area Median Income

For Example:

Franklin County: Family of Four Household

50%AMI = \$31,900 60% AMI = \$38,280 100%=\$63,800

Franklin County: One Person Household

50%AMI = \$22,350 60% AMI = \$26,820 100%=44,700



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Rent Restrictions

Rents are restricted by income group, bedroom size and Area Median Income

For Example:

Franklin County 1 Bdr 4 Bdr

50% Area Median Income \$598 \$925

60% Area Median Income \$717 \$1,110

(Rents include utility costs and all other costs
that are required by owner)



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Occupancy Restrictions

Property must remain as affordable housing for at least 30 years...unless is it a Lease-Purchase project, where the home is sold to eligible residents after a 15 year compliance period.



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Types of LIHTC

- 9% New construction/Rehab credit
 - Most common credit
- 4% Acquisition Credit
 - Used when purchasing an existing building
- 4% New construction/Rehab with federal funds
 - Bond Deal



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The 9% Credit

- Percentage applied to eligible basis of total project development costs to determine amount of credit
- Eligible basis includes depreciable assets:
 - Development costs minus – land, building acquisition costs, grants or other credits, fees and costs related to perm loan, syndication costs, operating expenses including reserves
- Qualified basis – adjusts credit amount by applicable fraction (% of units or square footage set aside for low income):
 - Most projects are 100% low income
- Basis boost – increases eligible basis based on location:
 - Qualified Census Tract (QCT) – 30% boost
 - Difficult to Develop Area (DDA) – 30% boost



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The 4% Credit (the acquisition credit)

- Cost of purchasing building qualifies if:
 - Project includes substantial rehabilitation
 - Meets requirements of 10 year rule
- No basis boost for acquisition basis
- Adjust basis for applicable fraction of low income units



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Computing the Credit Amount

Eligible Basis	\$1,000,000
Applicable Fraction	100%
QCT Basis Boost	30%
Total qualified basis	\$1,300,000
x Treasury Rate	7.96%
Annual Tax Credit	\$103,480



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Tax Credits vs. Tax Deductions

	<u>No Tax Credit/ No Deduction</u>	<u>Deduction</u>	<u>Tax Credit</u>
Income from Operations	\$100,000	\$100,000	\$100,000
Operating Expenses	\$50,000	\$50,000	\$50,000
Deductions	None	\$10,000	None
Taxable Income	\$50,000	\$40,000	\$50,000
Tax Liability (@35%)	\$17,500	\$14,000	\$17,500
Tax Credits	None	None	\$10,000
Net Tax Liability	\$17,500	\$14,000	\$7,500



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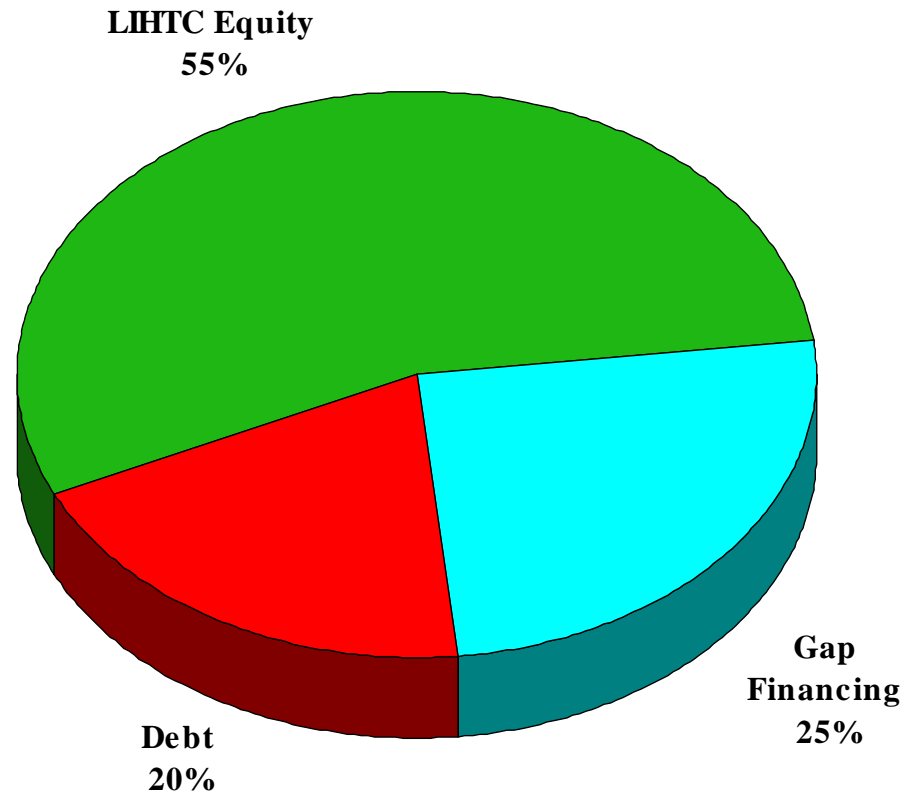
Typical LIHTC Ownership Structure: Limited Partnership / Operating Company

- Limited Partnership / Operating Agreement: Sets Forth Roles, Responsibilities and Compensation of Partners
- 0.1% General Partner/Managing Member: Manages Affairs of the Partnership
- 99.9% Limited Partner / Investor Member (Equity Fund): Invests in Exchange for Tax Benefits, providing cash to the development in exchange for tax benefit to investors.

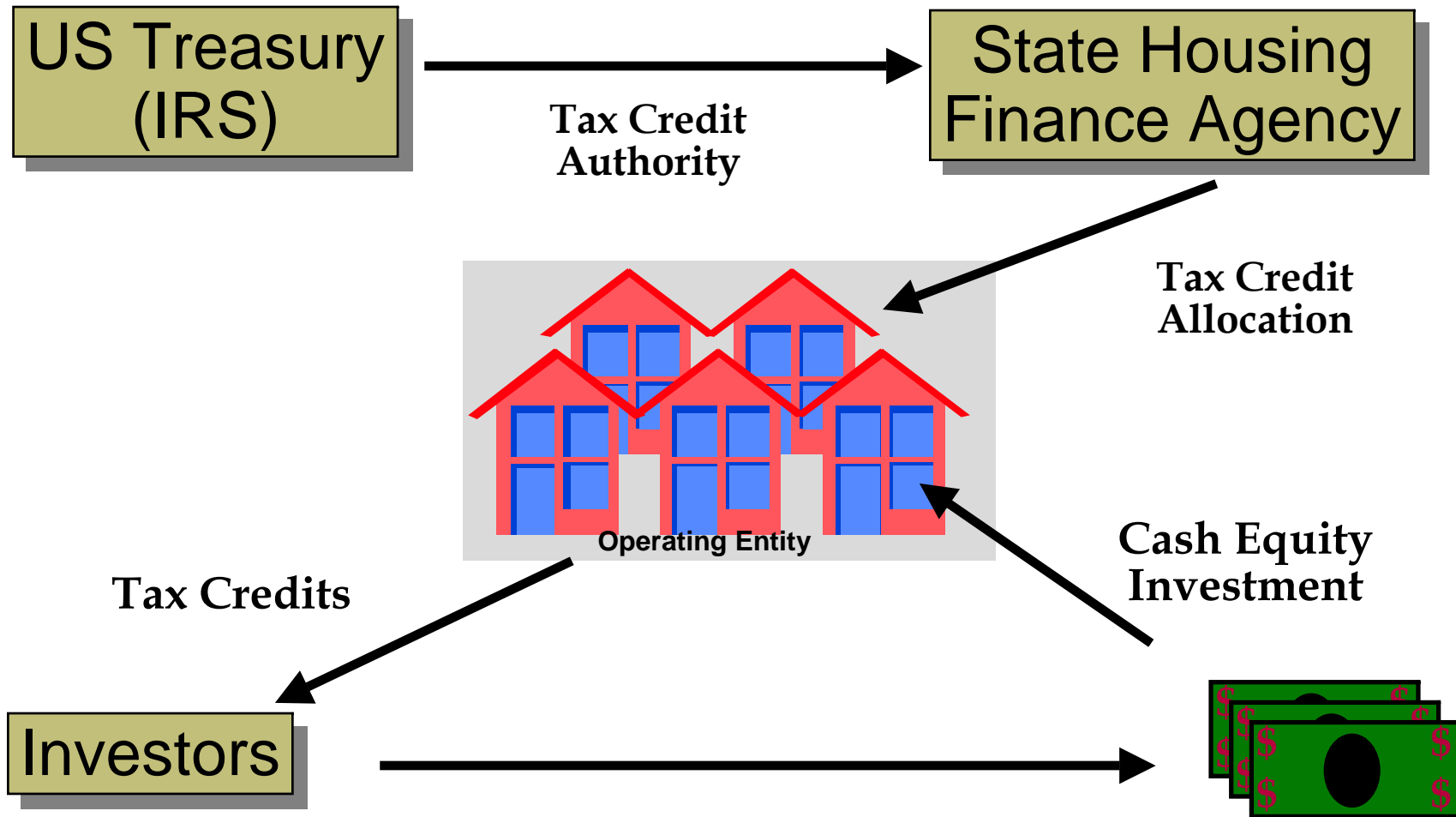


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Tax Credits Bring *CASH* (equity) to the Deal



How LIHTC Credits Flow...





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How to Get the Credits:

- Annual application
- Competitive process
- Scoring based on Qualified Allocation Plan (QAP), designed by each state
- Ohio QAP is designed by the Ohio Housing Finance Agency, and awards points for various project characteristics. For example:
 - Unit amenities: AC, Energy Efficiency, Community Facilities
 - Targeting Special Needs Populations: Elderly, MR/DD, Extremely Low Income
 - State / City support
 - General Partner / Developer experience
 - Management company experience



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Other Resources: a.k.a GAP Financing

- City and County Federal Funds
- Ohio Dept. of Development Federal and State Funds
- Tax Exempt Bonds
- Federal Home Loan Bank Affordable Housing Program
- Capital Campaign
- Funding of Services



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The Development Team

- Sponsor
- Developer
- General Contractor
- Architect
- Property Manager
- Attorney
- Accountant
- Public Lenders
- Private Lenders
- Syndicator – Ohio Capital Corp. for Housing



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What does the Syndicator do?

- Sell tax credits to investors to generate equity (cash)
- Establish Equity Funds with Limited Liability Corporations or Limited Partnerships
- Tax Benefits flow through the partnership to investors
- 15 Year Investment Horizon



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Ohio Capital Corporation for Housing

Beyond providing syndication services, OCCH:

- Consults with Development Partners on LIHTC Program
- Prepares LIHTC Applications
- Develops Tools to Assist Partners in Preparing their Own Applications
- Obtains Gap Financing
- Negotiates Bank Financing
- Provides Partners with Predevelopment Loans
- Advises on Affordable Housing Preservation



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Ohio Capital Corporation for Housing:

Examples of LIHTC projects in Ohio...



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St. Clair Hotel Senior Apartments

Acquisition / Rehab, Elderly
Columbus, Ohio



Ridgewood Heights

Single Family, New Construction
Dayton, Ohio





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Grand Place Apartments
Historic Rehab, Elderly
Dayton, Ohio



Wesley Commons
New Construction,
Multi Family
Fostoria, Ohio



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Briarwood
New Construction, Mixed SF / MF
Steubenville, Ohio



Blue Heron
New Construction, Elderly
Buckeye Lake, Ohio



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Franciscan Homes IV
New Construction / Rehab,
Family
Cincinnati, Ohio



South of Main Homes
New Construction / Rehab, Family
Columbus, Ohio



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