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# Overview of Low-Income Housing Tax Credits, Private Activity Bonds and Affordable Rental Development

October 2, 2024

# Low Income Housing Tax Credit Overview

The 1986 Tax Reform Act created the Low-Income Housing Tax Credit (LIHTC) program, under Section 42 of the Code, to assist the development of low-income rental housing by providing qualified Owners with income Tax Credits to reduce their federal tax obligations. Similarly, HB 14-1017 created the Colorado Low Income Housing Tax Credit program which provides qualified Owners with income Tax Credits to reduce their State tax income obligations.

The Colorado Housing and Finance Agency (CHFA) is the allocating agency for the Federal and State Housing Tax Credit programs in Colorado and are required to adopt a Qualified Allocation Plan (QAP) to govern the selection criteria and preferences for allocating Federal Credits. CHFA's QAP is currently updated every two years and is made available for review by interested parties before approval by the Governor and final publication.

# Low Income Housing Tax Credit Overview

Projects are awarded LIHTC by CHFA in one of three ways:

- 9% Tax Credits
  - Annual competitive round, applications due February 1
  - Estimated \$15M available in 2024, capped at \$1,450,000/project or applicant
- 4% Tax Credits paired with State Tax Credits
  - Annual competitive round, applications due August 1
  - Estimated \$10M available in State Credits in 2024, capped at \$1,800,000/project or applicant
- Non-competitive 4% Tax Credits
  - Rolling applications (excluding February and December)

\*With the passage of HB 24-1434, the 2023-2024 QAP was amended to increase and accelerate State Tax Credits and make available for 9% and non-competitive 4% projects.

# Private Activity Bonds (PAB)

Private Activity Bonds (PAB) are tax-exempt bonds issued to finance private projects that benefit the public, including affordable housing.

- **Financing Mechanism:** PAB provide a lower-cost capital source, allowing developers to leverage tax-exempt financing for constructing or rehabilitating affordable housing.
- **50% Test:** To qualify for 4% LIHTC, at least 50% of the project's financing must come from PABs.
- In 2024, Denver received ~\$48.5MM in PAB
- HOST allocates PAB to eligible affordable housing projects through a competitive application process each Spring, prioritizing: expiring QCTs, preservation, deep affordability, multiple bedroom units, supportive services/PSH, development agreements, and consideration of pipeline and other City resources

# Low Income Housing Tax Credit Overview

## 4% LIHTC Example for a 100% Affordable Project in a Qualified Census Tract (QCT):

### Uses

Land: \$1,000,000  
Residential Construction: \$25,000,000  
Financing Costs: \$500,000  
Soft Costs: \$2,000,000  
**TOTAL: \$28,500,000**

### LIHTCs

27,000,000 (Res. Construction + Soft Costs)  
x 1.3 (30% QCT Boost)  
\$31,100,000 (Credit Basis)  
x .04 (Credit Rate)  
**\$1,244,000 (Maximum Annual Credit)**

### Equity

\$1,244,000 (Annual Credit)  
x 10 (# of years)  
\$12,440,000 (Total LIHTCs)  
X .88 (Credit Price)  
**\$10,947,200 (Equity = 38% of TDC)**

### Sources

Private Debt: \$14,702,800 (proceeds from PAB)  
HOST Loan: \$2,850,000  
Equity: \$10,947,200  
**TOTAL: \$28,500,000**

# Montbello FreshLo Hub

- Montbello Organizing Committee (MOC), in partnership with Flo Development Services, will provide 97 units of housing for households earning between 30% and 70% AMI
- Located at 12444 E Albrook Drive in the Montbello neighborhood
- Six-story building will include:
  - 97 units including 49 1BR, 33 2BR units, and 15 3BR units
  - 7% the units affordable at or below 30% of AMI
  - 25% the units affordable at or below 50% of AMI
- The ground floor will consist of community service facility space for WellPower, office space for MOC, and other community-serving spaces.



# Example: Harvest Hill, Broomfield

- Since 2021, UDG has been working on a 152-unit (1, 2 and 3 bedrooms), transit-oriented development in Broomfield
- Harvest Hill provides units from 30-70% AMI and is being developed in partnership with Broomfield Housing Alliance
- Applied 2x for state tax credits unsuccessfully due to statewide demand
- In 2024, CHFA agreed to provide PAB from its allocation and serve as permanent lender
- Harvest Hill leverages almost every financing source available in Colorado and will break ground in Q1 2025



# Harvest Hill Permanent Sources & Uses

| Sources of Funds:              | Type              | PERMANENT            |                   | Notes                                                            |
|--------------------------------|-------------------|----------------------|-------------------|------------------------------------------------------------------|
|                                |                   | Total                | Per Unit          |                                                                  |
| Federal LIHTC                  | Tax Credit        | \$ 19,100,000        | \$ 125,658        | 4% Federal LIHTC Credits sold to USBank                          |
| State Accelerated LIHTC        | Tax Credit        | 3,800,000            | 25,000            | New Accelerated State Tax Credits sold to USBank                 |
| Energy Tax Credits             | Tax Credit        | 95,000               | 625               | Federal solar ITC sold to USBank                                 |
| Permanent Debt                 | Permanent Debt    | 26,700,000           | 175,658           | CHFA's HUD risk-share permanent debt product sized to 1.15x DSCR |
| CCEF Loan                      | Hard-Pay Sub Debt | 2,000,000            | 13,158            | Provided by Colorado Clean Energy Fund and IDF                   |
| More Housing Now - DOLA / DLG  | Soft-Pay Sub Debt | 2,000,000            | 13,158            | Granted by DLG to Broomfield and then loaned into project        |
| Broomfield Loan                | Soft-Pay Sub Debt | 2,000,000            | 13,158            | Loaned from Broomfield into project                              |
| DOLA CDOH Loan                 | Soft-Pay Sub Debt | 2,000,000            | 13,158            | Loaned from CDOH into project                                    |
| Interim Income from Operations |                   | 600,000              | 3,947             |                                                                  |
| Deferred Developer Fee         |                   | 2,835,000            | 18,651            | UDG is deferring approximately 45% of its fee for 8 years        |
| <b>Total Sources of Funds</b>  |                   | <b>\$ 61,130,000</b> | <b>\$ 402,171</b> |                                                                  |

  

| Uses of Funds:                  | PERMANENT            |                   | Notes                                                          |
|---------------------------------|----------------------|-------------------|----------------------------------------------------------------|
|                                 | Total                | Per Unit          |                                                                |
| Land Acquisition                | \$ 2,650,000         | \$ 17,434         | UDG rezoned the land and is purchasing it at financial closing |
| Construction Hard Costs         | 39,000,000           | 256,579           | Taylor Kohrs pricing                                           |
| Impact Fees                     | 4,700,000            | 30,921            | Broomfield water, sewer and other impact fees                  |
| Architecture & Engineering Fees | 2,500,000            | 16,447            | Design costs                                                   |
| Tax Credit Fees                 | 270,000              | 1,776             | Costs of CHFA tax credit allocation                            |
| PAB Costs of Issuance           | 540,000              | 3,553             | Cost of CHFA PAB issuance                                      |
| Construction Financing Costs    | 3,400,000            | 22,368            | Construction interest reserve                                  |
| Permanent Financing Costs       | 270,000              | 1,776             | CHFA permanent loan costs                                      |
| Reserves & Escrows              | 1,600,000            | 10,526            | Lender and equity required reserves (operating, leaseup, etc.) |
| Soft Cost Contingency           | 100,000              | 658               |                                                                |
| Developer Fee                   | 6,100,000            | 40,132            | CHFA 12% developer fee                                         |
| <b>Total Uses of Funds</b>      | <b>\$ 61,130,000</b> | <b>\$ 402,171</b> |                                                                |





# What is the developer's risk for Harvest Hill?

- By closing of financing / construction start, UDG will have advanced roughly \$1.7 million in at-risk funding to get entitlements and arrange financing
- Additionally, UDG is providing the following guaranties on balance sheet:
  - Completion Guaranty – uncapped guaranty to cover cost overruns for construction period (~36 months)
  - Construction Loan Payment Guaranty – \$31.6 million principal payment guaranty for construction period (~36 months)
  - Operating Deficit Guaranty – uncapped guaranty to cover operating shortfalls for 15 years
  - Tax Credit Compliance Guaranty – \$26.7 million guaranty of total tax credit proceeds for 15 year compliance period
- Nationally, successful public-private partnerships and funding sources provided transparency, predictability and consistency to enable and induce developers to take and maintain on-balance sheet risk



# Project Details– 4% + State LIHTC

| Sources                   | Total               | %             |
|---------------------------|---------------------|---------------|
| Permanent Mortgage        | \$11,670,000        | 23%           |
| CHFA Second Mortgage      | \$800,000           | 1.6%          |
| Federal LIHTC Equity (4%) | \$20,013,566        | 39%           |
| State LIHTC Equity        | \$3,465,556         | 7%            |
| HOST Loan*                | \$4,750,000         | 9%            |
| DOH Loan                  | \$3,300,000         | 7%            |
| Deferred Developer Fee    | \$759,232           | 1.5%          |
| Energy Credit Equity      | \$106,592           | 0.2%          |
| CMF Grant                 | \$150,000           | 0.3%          |
| Seller Carryback          | \$700,000           | 1.4%          |
| OEDIT ARPA Grant          | \$5,000,000         | 10%           |
| <b>Total</b>              | <b>\$50,714,946</b> | <b>100.0%</b> |

- In addition to City funds, MOC leveraged private debt, LIHTC equity, state Division of Housing funds, seller carryback, deferred developer fee, energy credits, and grant funds.
- City used \$25,670,000 of its Private Activity Bond capacity for the project.
- HOST Loan includes \$1,450,000 in Federal Community Project Funding



# Questions



# Appendix

# Awarded 9% Projects 2022-2024

## 2024

Beeler Park Flats, 64 units

Iliff Senior Apartments, 50 units

Kappa Tower III, 30 Units

Vina Senior Apartments (9% and 4%), 152 units

## 2023

10th and Sheridan, 60 units

Henninger Legacy Homes, 60 units

## 2022

St. Stephens Senior Apartment, 50 units

# Awarded 4% + State Projects 2022-2024

## 2024

14 Denver projects have submitted applications

## 2023

901 Navajo, 190 units

Albion Apartments, 170

Chrysalis Apartments, 70 units

Denver Dry Goods, 106 units

## 2022

Irving at Mile High Vista, 102 units

Residences on Acoma, 128 units

Warren Village III, 89 units

# Awarded 4% Projects 2021-2022

## 2022

Ruby Vista, 98 units

St. Francis Center West, 60 units\*

## 2021

1600 Newton, 158 units

38th and Holly, 258 units

Central Park III, 127 units

Krisana, 150 units

Northfield Flats, 129 units\*

Pascal Gardens, 216 units

Sol, 130 units\*

Wildhorse Ridge, 119 units

\*City PAB