

# Bond Case Briefs

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## California Developers Test New State 'Certificated' Credits.

***The new approach is expected to bring higher prices for state housing tax credits.***

Several affordable housing developers are working to close the financing on their latest projects using new “certificated” credits in California.

They will be the first to use the financing tool after California leaders made changes to the law to allow for the certification of state low-income housing tax credits (LIHTCs) under a three-year pilot. The move aims to help nonprofit developers receive higher pricing for their state credits and ultimately raise more equity for their projects.

State credits in California have recently sold for about 65 to 75 cents per dollar of credit, but officials think that the certificated credits could generate 90 to 95 cents per dollar of credit. That could result in about \$20 million in additional equity to California projects and ultimately more affordable housing being built.

Under the program, participating developments must receive at least 80 cents per dollar of credit.

“From the prior floor to 80 cents is a 23% increase,” says Brian D’Andrea, senior vice president of housing at Century Housing. “Our hope and expectation is that we’ll be able to achieve at least that.”

Century Housing affiliate, Century Affordable Development, has chosen to use certificated credits to raise equity to build Beacon Pointe, a 121-unit affordable housing development for seniors in Long Beach, Calif. Sixty-one apartments will be set aside for seniors who have been homeless. The California Tax Credit Allocation Committee (CTCAC) recently reserved the project nearly \$11 million in state credits.

It’s one of the first five developments electing to certificate credits. These initial developments received reservations for about \$30.2 million in state credits. California has an annual state credit ceiling of about \$94 million.

“We’re very pleased to have received the allocation, and we’re working toward a closing later this year,” says D’Andrea.

The Cesar Chavez Foundation, Coachella Valley Housing Coalition, National Housing Corp., and PATH Ventures are the other developers that received reservations for certificated credits from CTCAC.

How it worksTraditionally, LIHTCs are allocated to developers, who then sell them to an investor, usually in the form of a limited partnership interest. Certificated credits differ in that they are sold outright to investors who take no ownership interest in the development. This eliminates the impact of the state credits on an investor’s federal tax liability, allowing an investor to offer higher pricing.

CTCAC reserves certificated credits in the name of the nonprofit partner in a development. The

nonprofit can then sell the credits to one or more investors, with the law allowing each initial investor to resell the credits one additional time.

The California Housing Partnership Corp. (CHPC) and state treasurer John Chiang co-sponsored and helped draft the legislation by state Sen. Jim Beall (D-San Jose) that opened the doors for the program. Supporters were working on the certificated credit program long before the recent turmoil in the LIHTC market.

Federal LIHTC prices dropped sharply after the November election as the prospects of tax reform increased with Donald Trump in the White House and Republicans in control of the House and Senate. Trump has called for slashing the business tax rate from 35% to 15% while members of Congress will likely be eyeing a rate in the 20% to 25% range. While a change in the tax rate does not affect the value of the tax credits themselves, it can impact depreciation and other tax losses that are part of the investment.

The uncertainty around tax reform caused some investors to pull out of funds or offer lower prices for LIHTCs, creating funding gaps in a number of affordable housing deals. As a result, the opportunity to get more value from the state credit comes at an ideal time.

“Everyone was interested in a way to get more bang for the buck out of the state’s existing program,” says David Dologite, senior housing finance consultant and policy counsel at CHPC. “It doesn’t involve the state spending any more money. The amount of tax credits that investors are receiving is the same. It increases the value of the credit and the price that sponsors are able to receive.”

Developers need to make an irrevocable choice upfront on whether to certificate when they apply for credits. The reason for that is CTCAC’s underwriting depends on what credit price developers use in their proposals.

Under the program, investors who buy certificated credits must have participated in state or federal tax credits previously, according to the state Treasurer’s Office. At least in the pilot stage, this ensures that participants are sophisticated, historic investors.

If the program is successful, supporters hope it will become permanent, Dologite says.

California leaders looked to other states in creating the new program, including Massachusetts, which has been a leader in the certification of housing credits. Other states have also used the approach for historic and economic development credits.

Housing leaders have high expectations for the program in California, with more developers expected to secure reservations for certificated credits in the second allocation round this year.

## **Affordable Housing Finance**

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