

**New Jersey Housing and Mortgage Finance Agency
Tax Credit Assistance Program
Project Selection Criteria**

The Low Income Housing Tax Credit program (LIHTC) is intended to encourage public-private partnerships in the development of affordable housing. Under the program, affordable housing developers are awarded housing credits to sell to private investors in order to raise capital. The dollar for dollar tax credit is claimable by investors annually for 10 years. Prior to the financial crisis of 2009, the LIHTC typically sold for \$.80 to \$.90 for each dollar of credit. The private capital received from these sales reduced the amount of debt or loans needed to cover the costs of constructing an affordable housing project. As a result, rents for tenants can be reduced to more affordable levels since less income is necessary to operate the development. Since the financial crisis, the price of LIHTCs have plummeted leaving affordable housing projects stalled. The American Recovery and Reinvestment Act seeks to fill the gap in funding through the Tax Credit Assistance Program (TCAP) and enable affordable housing developments to resume. The Act allocated \$2.25 billion to the U.S. Department of Housing and Urban Development (HUD) to distribute to states via formula. New Jersey's share is \$61,243,670.

The Housing and Mortgage Finance Agency (HMFA) is New Jersey's authorized housing credit agency responsible for administration of the federal LIHTC program on behalf of the IRS. There are two "pools" of credits that the HMFA administers under the LIHTC program: the 9% credit and the 4% credit.

The annual amount of 9% credits available to each state is based on population. The current rate is \$2.30 per person. Through the sale, or syndication, of these credits, the \$20 million allocated by the HMFA each year generates approximately \$140 million in equity for New Jersey's affordable housing market. Since the equity from the sale of the 9% credit can cover roughly 70% of a project's total development cost, demand for these credits is very high: roughly 4 submissions for every project funded. As such, the HMFA has created a competitive process using its [Qualified Allocation Plan](#) (QAP) to allocate these credits.

The QAP outlines a set of core eligibility requirements and a ranking system for projects to apply for tax credits. The QAP is reviewed annually to ensure it remains in line with state and federal priorities. Applications for 9% credits are accepted twice a year, usually in April and August. The \$20 million pool of credits is divided into application cycles so similar projects compete against each other. The April submission has a Family, Senior, and Supportive Housing Cycle where the bulk of the credits are awarded. The August round allocates any remaining funds and all projects may apply.

The 4% credit is administered by the HMFA on a first-come-first-served basis. A project qualifies for the 4% credit as long as it meets the minimum eligibility requirements under the QAP and at least 50% of the total project cost is financed with the proceeds of tax-exempt bonds. The equity from the sale of 4% credits generates only 30% of a project's total development cost. Therefore, a significantly greater share of a project's total cost must come from funding sources in order to make a 4% deal feasible. Demand for 4% credits is significantly less than 9% credits.

Due to recent market conditions, investor interest in tax credits has diminished as fewer organizations have either the liquidity to invest in tax credit properties or the profitability to necessitate a tax credit. Therefore, the price investors are willing to pay for tax credits has commensurately decreased. In an effort to provide assistance in closing the funding gap created by this drop in equity pricing and to jump start construction of affordable housing stalled by the current economic climate, \$2.25 billion of federal assistance was set aside for the TCAP program by the American Recovery and Reinvestment Act.

Consistent with federal guidance, TCAP funds are structured as low-interest secondary, or soft, loans where repayment by developers is made from available cash flow. Since repayment is based on available cash flow, projects that generate income during operations will make payments annually to the extent funds are available. For all projects, the remainder of the outstanding funds that have not been paid during operations will be due upon the sale or re-finance of the building, or if the project ceases to serve affordable residents.

PROJECTS ELIGIBLE FOR THE TAX CREDIT ASSISTANCE PROGRAM

Per federal guidance, projects eligible to receive TCAP assistance are rental housing projects that received or will receive an award of LIHTCs during the period from October 1, 2006 to September 30, 2009 (federal fiscal years 2007, 2008 or 2009), and require additional funding to be completed and placed into service. Such projects include new construction of affordable housing units, the rehabilitation of existing housing for conversion to affordable housing, and the rehabilitation of current affordable housing. Currently, the HMFA expects that 90% of the TCAP credits will go for new construction and 10% to rehabilitating buildings for conversion to affordable housing.

MAXIMUM TCAP AWARD PER PROJECT

In an effort to maximize the number of units that can be produced with TCAP funds, no project will be granted more than \$6 million.

SELECTION CRITERIA FOR THE TAX CREDIT ASSISTANCE PROGRAM

Per federal guidelines, the highest priority for TCAP funding shall be given to eligible projects that are expected to be completed by February 16, 2012. Among such projects, TCAP awards shall be granted in the following order until New Jersey's TCAP authority has been exhausted:

- I. Projects that receive an award of 9% tax credits during the 2009 Tax Credit Cycles
 - i. TCAP funding shall be prioritized in the following manner: the highest ranking eligible project(s) as determined by the HMFA's 2009 [QAP](#) awarded credits in the Family Cycle, the Senior Cycle, the Supportive Housing Cycle and lastly, the Final Cycle.

- II. Projects that received a tax credit award in 2007 or 2008 that have not yet closed with an investor and who can demonstrate that their financial feasibility has been detrimentally impacted by the significant downturn in the tax credit equity
 - i. Should the HMFA receive multiple applications from such projects, TCAP funding shall be awarded starting with the project requesting the least amount of TCAP funds per subsidized unit. Awarding TCAP funds in this manner will encourage developers to maximize the use of other sources of capital and extend the state's TCAP funds enabling as many units to be built as possible.

- III. Should TCAP funding be available after priorities I and II are satisfied, the HMFA shall establish a Request for Proposals for "shovel ready" projects that receive an award of 4% tax credits. TCAP funding shall be awarded starting with the project requesting the least amount of TCAP funds per subsidized unit. Such projects shall have the following in place at the point of TCAP application submission:
 - i. Building permits
 - ii. A "firm" commitment of equity from a tax credit investor. Such letter shall not contain any "best efforts" language (e.g. "subject to finding an investor" or "subject to equity availability").

- IV. Should TCAP funding be available after priorities I, II and III are satisfied, TCAP funding shall be awarded to other eligible TCAP recipients as defined above, starting with the project with the least amount of TCAP funds requested per subsidized unit.

The 9% tax credit projects are prioritized above any 4% project because they provide greater leveraging of funds. The equity generated from 9% credits can cover approximately 70% of a project's total development costs, whereas equity from 4% credits only covers about 30% of a project's costs. Additionally, in the current market of limited equity investment, 9% projects have a significantly greater likelihood of finding a tax credit investor.

COMMITMENT AND EXPENDITURE DEADLINES; REDISTRIBUTION OF FUNDS

The Recovery Act imposes both commitment and expenditure deadlines on the use of TCAP funds. Specifically, the Recovery Act requires that the state housing credit agency:

- Commit not less than 75 percent of its TCAP grant by February 16, 2010;
- Demonstrate that all project owners have expended 75 percent of the TCAP funds by February 16, 2011; and
- Expend 100 percent of its TCAP grant by February 16, 2012.

To ensure the timely utilization of funds as described above, the HMFA shall establish a project-specific schedule for the expenditure of TCAP funds. Failure of TCAP recipients to meet such deadlines may result in recapture of the TCAP funds for redistribution to a more deserving project, as determined by the priority ranking system outlined above.

PROGRAM RESULTS

Based on the \$61.3 million made available to New Jersey under the Recovery Act, the HMFA estimates that the TCAP program will leverage an additional \$300 million dollars, and will award the credits to an estimated 20 different housing projects. This initiative will result in a total construction investment of \$360 million and will provide for 1,300 new affordable housing units that otherwise would not have been constructed.