

CURRENT AND EMERGING FINANCING PROGRAMS

- Tax Abatement (Fixed and Variable)
- Tax Increment Financing (TIF)
- Payment in Lieu of Taxes (PILOT)
- Tax Exemption
- Capital Lease Sales Tax Exemption
- Partnering with Healthcare Institutions
- “Twinning” 4% and 9% LIHTC

TAX ABATEMENT

- Abates property tax on **increased** value due to improvements for a specified period of time
- 100% of increased value or
- Decreased abatement over time
 - 100% Yrs 1-5
 - 75% Yrs 6-10
 - 50% Yrs 11-15

TAX ABATEMENT CALCULATION

RE Taxes w/o Abatement		\$	50,000
RE Taxes w/Abatement		\$	2,500
Savings from Abatement		\$	47,500
Effective Gross Income		\$	650,000
Expenses		\$	300,000
RE Taxes		\$	50,000
Net Operating Income		\$	300,000

100% TAX ABATEMENT CALCULATION

Net Operating Income			\$ 300,000				\$ 47,500
Available for DS		87%	\$ 261,000				\$ 47,500
Amort		40				15	
Term		40				15	
Rate		6.0000%				6.0000%	
MIP		0.2500%				0.2500%	
Curtail		0.6026%				4.1263%	
Constant		6.8526%				10.3763%	
DS Mortgage			\$ 3,808,800				\$ 457,800
Total Insured Mortgage			\$ 4,266,600				

VARIABLE TAX ABATEMENT CALCULATION

Period	Years	Percentage	Savings	Difference	Term	Constant	Amount
1	1-5	100%	\$ 47,500	\$ 11,875	5	0.234494	\$ 50,600
2	6-10	75%	\$ 35,625	\$ 11,875	10	0.135725	\$ 87,500
3	11-15	50%	\$ 23,750	\$ 23,750	15	0.103763	\$ 228,900
4	16-40	0%	\$ -				
						Total	\$ 367,000

TAX INCREMENT FINANCING

- A portion of the full real estate taxes is rebated to the Owner for a specified period of time
- Similar to Tax Abatement.
- Owners can capitalize TIF upfront or take it over time to increase cashflow
- However, Owner has to pay real estate tax bill then wait for the rebate. Can be up to a year or more.

PAYMENT IN LIEU OF TAXES (PILOT)

- Percentage of collected revenue rather than payment of real estate taxes.
- Specified period of time, often coterminous with term of loan

			w/o PILOT		w/PILOT
Effective Gross Income			\$ 650,000		\$ 650,000
Less Expenses			\$ 300,000		\$ 300,000
Less RE Taxes / PILOT			\$ 50,000	4.0%	\$ 26,000
Net Operating Income			\$ 300,000		\$ 324,000
Available for DS	87.0%		\$ 261,000		\$ 281,880
Amort		40			
Rate		6.00000%			
MIP		0.25000%			
Curtail		0.60256%			
Constant		6.85256%			
DS Mortgage			\$ 3,808,800		\$ 4,113,500

TAX EXEMPTION

- No property taxes paid
- Government owned property (PHA) leased to an Owner of a LIHTC project for a long term, 75 years +
- Reduces operating expenses and increases NOI
- Increased NOI can boost loan amount and finance more improvements
- Lease will have some restrictions and a reversion clause

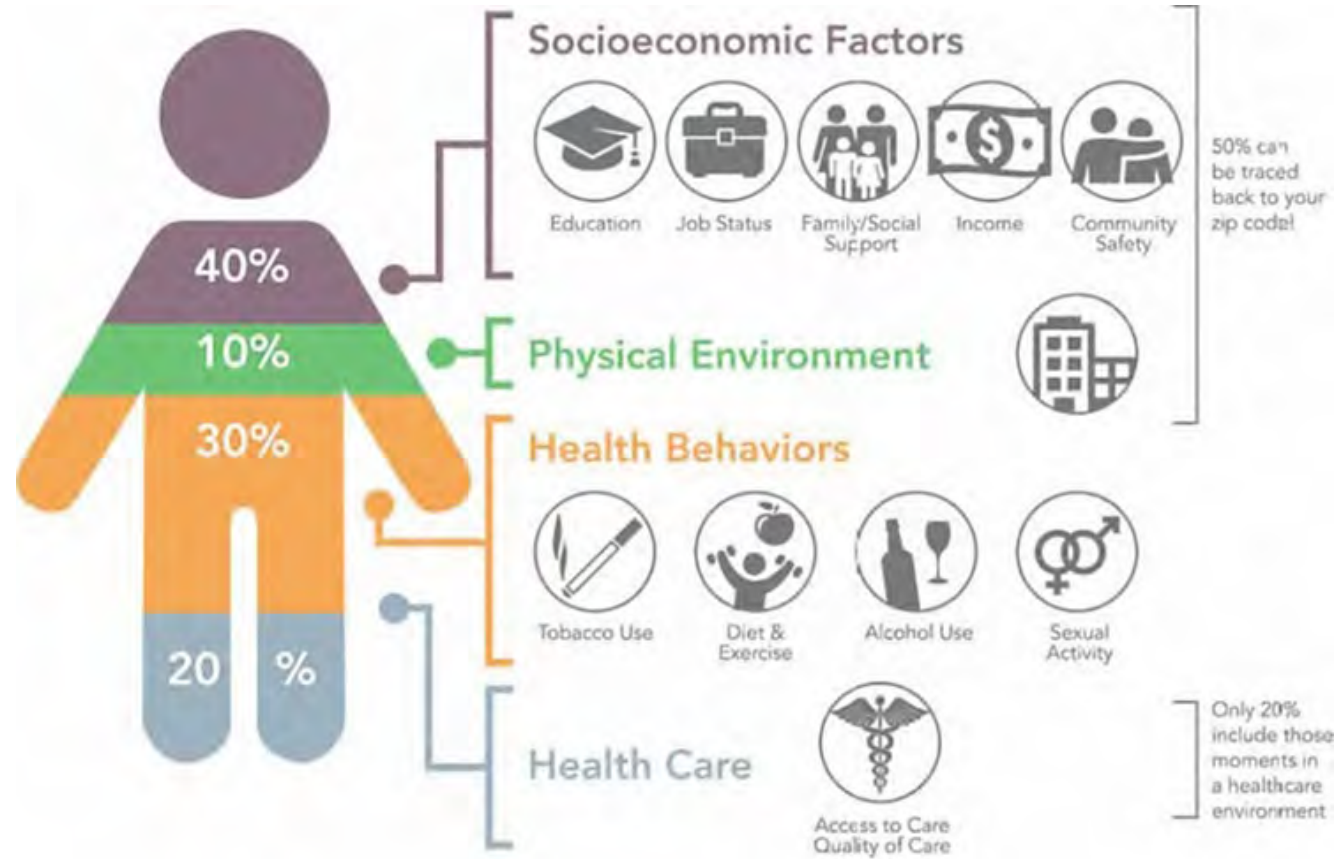
PORT AUTHORITY CAPITAL LEASE

- Construction materials are subject to state and county sales tax (8% in Cuyahoga County)
- State law exempts sales tax on construction materials if a governmental entity has an ownership interest in the improvements
- Capital lease arrangement between Port Authority and Developer
- Port Authority ground leases project site from the Owner/Mortgagor then leases it back to the Owner/Mortgagor
- Port Authority holds an “ownership” interest in the project subject to the leasehold and fee interest of the Owner/Mortgagor
- Port Authority issues taxable lease revenue bonds
- Bonds are “purchased” by the Owner/Mortgagor with advances from the construction loan
- No actual debt service (Owner/Mortgagor holds the bonds)
- Bonds are deemed paid in full upon termination of the capital lease
- Capital lease is terminated 5 years after completion of improvements
- Does not violate HUD requirement for a first lien mortgage on the project

PORT AUTHORITY CAPITAL LEASE

Construction Contract		\$	18,000,000
Construction Materials	45.0%	\$	8,100,000
State/County Sales Tax	8.0%	\$	648,000
Legal / Port Fees	2.0%	\$	162,000
Net Savings		\$	486,000

PARTNERING WITH HEALTHCARE INSTITUTIONS



Source: Institute for Clinical Systems Improvement. Going Beyond Clinical Walls: Solving Complex Problems (October 2014)

PARTNERING WITH HEALTHCARE INSTITUTIONS

Why would hospital systems get involved with affordable housing?

- Safe, stable, affordable housing and neighborhoods increases favorable health outcomes
- Reimbursement rates reduced for repeat care
- Decreases volume of unreimbursed care
- Non-profit systems typically have a community benefits fund
- Employee recruitment and retention

PARTNERING WITH HEALTHCARE INSTITUTIONS

Types of investments:

- Ownership and equity investment
- Subordinated debt
- Long term commercial space lease (Health Clinic)
- Long term ground lease
- Long term master lease on some or all apartment units
- Purchase GNMA MBS

“TWINNING” 9% AND 4% LIHTC

- State HFA's increasingly award competitive points to projects that combine 9% and 4% LIHTC
- IRS will not allow a project to be financed with both 9% and 4% LIHTC
- How can you combine 9% and 4% LIHTC under one insured mortgage without violating IRS rule?
- Structure 9% and 4% as separate financing:
 - Separate condominium (BIN's and Cost Certification)
 - Separate Building Permits (Architect and Construction contracts)
 - Pay off TEB after 4% condo unit is Placed in Service
 - All condominium units owned by FHA Mortgagor

“TWINNING” 9% AND 4% LIHTC

Longfellow School Apartments

- Historic Henry W. Longfellow elementary school built 1920's in Cleveland
- Vesta Corporation (CT based developer) responded to RFQ issued by CMSD
- Proposal:
 - 30 units in former school building
 - 50 units in new building
 - Creative use of common areas in school building
 - Affordable to seniors at or below 30%, 50%, and 60% AMI
 - 1BR's rent \$323 - \$721
 - 2BR's rent \$378 - \$830

“TWINNING” 9% AND 4% LIHTC

Longfellow School Apartments Funding:

- HUD Insured 221(d)4 loan
- 9% LIHTC
- 4% LIHTC
- Federal HTC
- State HTC
- City Housing Trust Fund Loan
- OHFA HDAP Loan
- Section 202 Capital Advance

"TWINNING" 9% AND 4% LIHTC

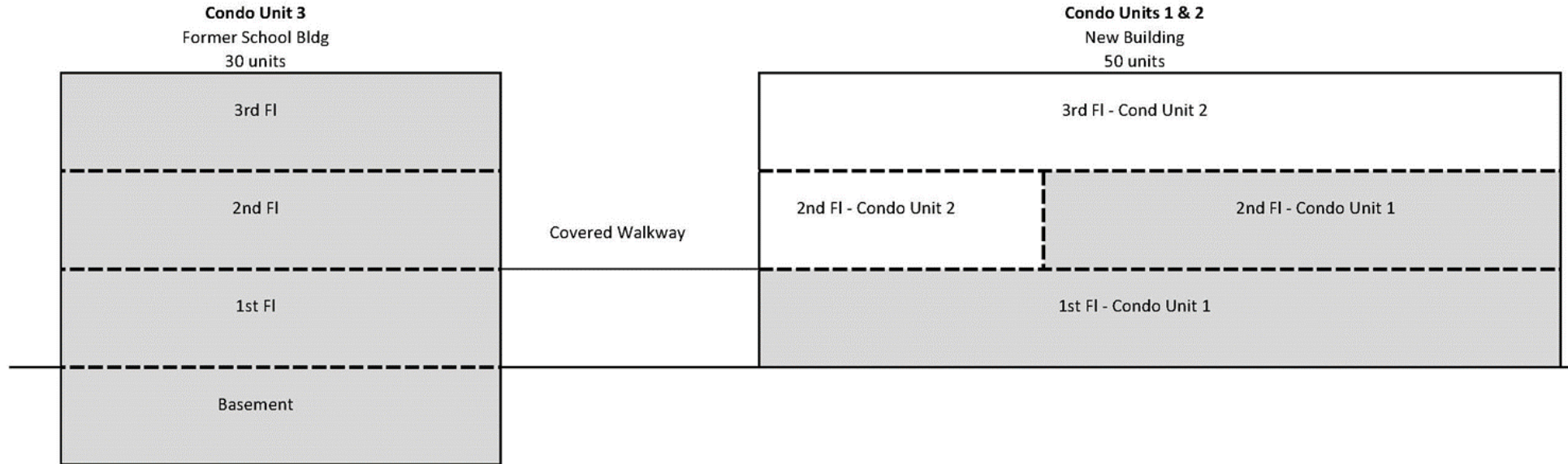
Longfellow School Apartments



"TWINNING" 9% AND 4% LIHTC

Simple Schematic View of Condominium Configuration

Longfellow Apartments
Cleveland, OH



- Condo Unit 1 (9% LIHTC), all of ground floor and portion of second floor of new building
- Condo Unit 2 (4% LIHTC), portion of second floor and all of third floor of new building
- Condo Unit 3 (9% LIHTC), all of former school building

Each condominium units will be subject to the HUD insured mortgage and owned by the borrower, Vesta Longfellow, LLC (a single asset entity)

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