

The Pennsylvania Housing Tax Credit (PHTC)

- **Panelists:**
- Andrew Cohen, Senior Vice President of Development, Woda Cooper Companies
- Dayle Dalling, CPA, Principal, Novogradac & Company LLP
- Melissa Grover, Director of Government Affairs, PHFA
- **Moderator:**
- Jessica Perry, Director of Development, PHFA



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Melissa Grover, Director of
Government Affairs - PHFA

What is a State Housing Tax Credit?

“State housing tax credit programs allow corporate or private investors to receive state tax credits on their investment in affordable rental housing. The dollars raised through tax credit investments make it possible to create and preserve low-income rental housing.” – Housing Alliance of PA



In July 2021, the Commonwealth of PA legislated a new PA Housing Tax Credit (PHTC)

- Act 107 of 2020 amended the Tax Reform Code of 1971 by adding Article XIX-G, Pennsylvania Housing Tax Credit (PHTC), which is administered by the Pennsylvania Housing Finance Agency (“PHFA” or “Agency”).
- The Agency is authorized to administer an annual allocation of state tax credits to qualified taxpayers for the development of affordable rental housing in the Commonwealth.
- In 2021, there is an allocation of \$10M of PHTCs.
- In 2022, there is a second allocation of \$10M of PHTCs.

TAX REFORM CODE OF 1971 - REPORTS, RESTRICTIONS AND PENNSYLVANIA HOUSING TAX CREDIT

Act of Nov. 3, 2020, P.L. , No. 107

Cl. 72

Session of 2020

No. 2020-107

What are the Eligibility Requirements?

- PHFA is authorized to allocate PHTCs for the purpose of developing and/or preserving affordable rental housing.
- For purposes of allocating the PHTC, qualified low-income housing projects should also be eligible for and receive an award of either **4% or 9% federal Low-Income Housing Tax Credits (LIHTCs)**. PHFA will determine the amount of tax credits conditionally reserved to a taxpayer based on the merits of the qualified low-income housing project.
- Tax credit awards will be capped at \$1,500,000 per qualified low-income housing project.
- PHFA will conditionally reserve tax credits in a manner that at the time of reservation, **PHFA reasonably believes will result in at least 10% of the tax credits being used to provide housing units targeted at households with incomes at or below 30% of the area median income (AMI)**.

How is the Credit Calculated?

- A developer can apply for up to \$1.5M in PHTCs per project.
- To determine, how much cash will be used as a source in the capital budget, multiply the credits times the price that the equity investor will purchase the credits.
 - Ex. \$1,000,000 in credits times \$0.70 = \$700,000
- To determine how many annual credits the investor can utilize, divide the total credits by FIVE.
 - Ex. \$1,000,000 in credits equals \$200,000 in credits per year for five years



Are Certification and Bifurcation Allowed?

CERTIFICATION

- Certification is the term used when the State Credit is sold to an investor without requiring the investor to become an owner.
- The process allows for a wider investment pool of both corporations and individuals to raise the necessary equity for the project.
- The legislation does not prohibit certification; however, the Agency encourages all developers to consult Legal Counsel specific to this topic.

BIFURCATION

- Bifurcation allows two separate entities to invest in the same affordable housing project (ie., one claiming the federal tax credit and the other claiming the state tax credit).
- Bifurcation appears to be allowable by the certification; however, the final decision lies with the Department of Revenue. PHFA encourages all developers to consult Legal Counsel specific to this topic.



Dayle Dalling, CPA
Novogradac & Company LLP

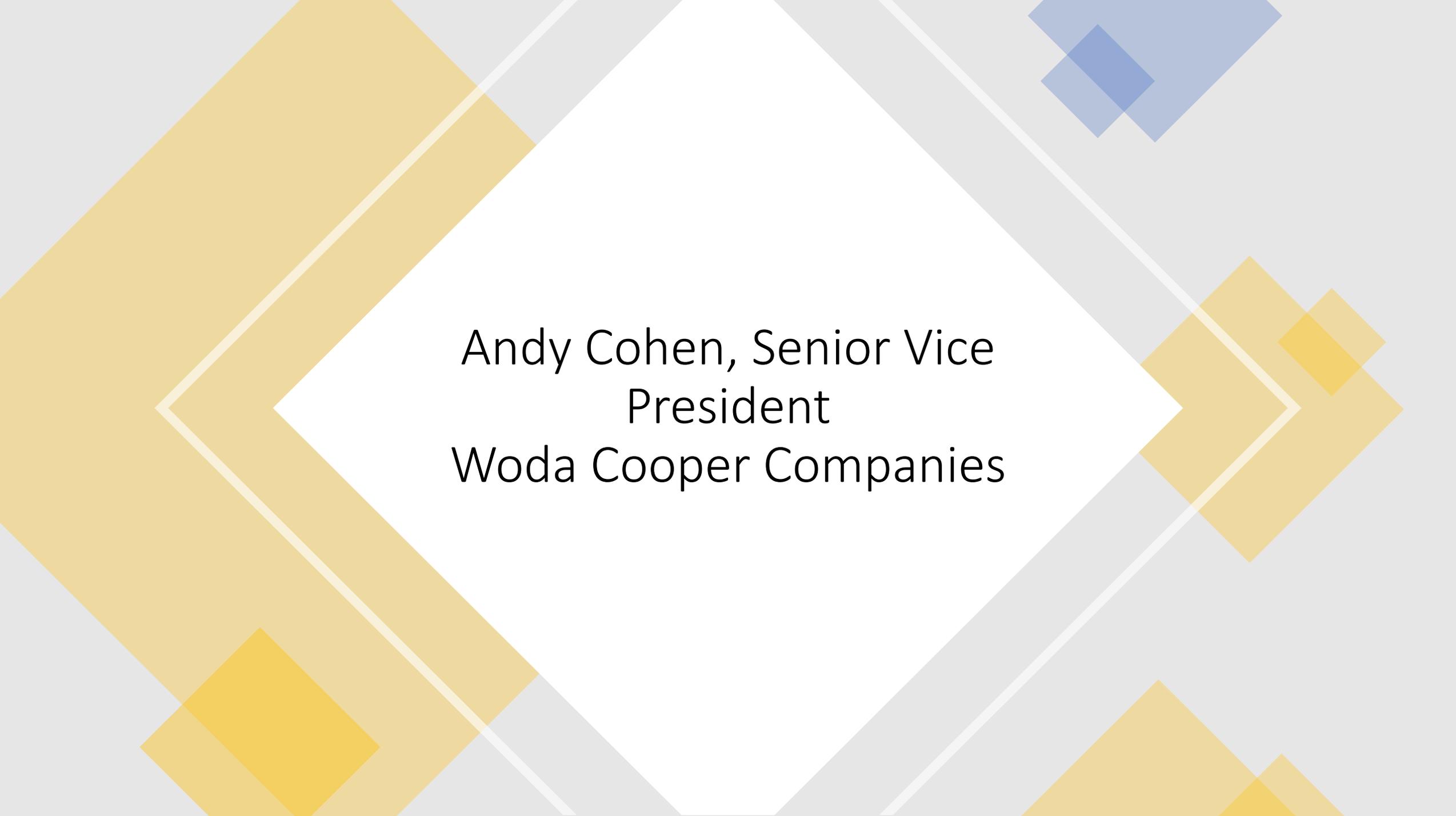
How Many States Have a State Housing Tax Credit Program?

- **24 States** currently have a State Housing Tax Credit Program.
- There are five states that currently have State LIHTC Programs proposed but not enacted.
- Some states use it for 9% LIHTCs, some for 4% LIHTCs, and some for both.
- Examples:
 - Arkansas:
 - The State Credit is used only in conjunction with the 9% Federal LIHTC Program.
 - Bifurcation is allowed.
 - 10-year credit period– cap of \$250,000 per taxable year
 - Colorado:
 - Established in 2001 and later renewed in 2014 and 2016.
 - Claimed in equal amounts for six taxable years.
 - In May the state LIHTC saw a doubling of its annual allocation (from \$5M to \$10M)
 - Bifurcation is allowed.

How Many States Have a State Housing Tax Credit Program? - Georgia

- Georgia:
 - Enacted in 2000, the Georgia Housing Tax Credit is a credit against Georgia income tax liability and/or insurance premium tax liability.
 - The state LIHTC is automatically allocated on a dollar-for-dollar basis with the federal LIHTC and is claimed over a period of ten (10) taxable years.
 - Bifurcation is allowed.
 - The state credit works in conjunction with both 9% and 4% credits.
 - The Department of Community Affairs (“DCA”), the Department of Revenue and the Officer of the Insurance & Safety jointly administer the program.

Source: Novogradac

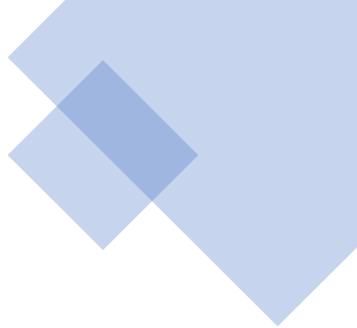


Andy Cohen, Senior Vice
President
Woda Cooper Companies

State Housing Credits

- State Housing Credits are the result of multi-year efforts engaging affordable housing advocates, revenue departments, and legislators.
- Every State Housing Credit program is structured in a unique way based on each State's tax code.
- State Housing Credits help to expand affordable housing opportunities and create more jobs.
- State Housing Credits can be complex but are a good way to fill a gap in a capital budget.





State Housing Credits

- State Housing Credits are generally deductible on a corporation's federal tax return.
- The Certificated State Credit does not generally require the investor to be a partner in the ownership of the project.
- This means the owner of the project must sell the certificate.
- The following is an example of a bifurcated credit project in Atlanta, GA.



Development Example: Stanton Park Apartments

<i>Stanton Park Apartments</i>							
<i>Atlanta, GA</i>							
<i>56 Units, General Occupancy wioth Supportive Housing Component</i>							
<i>Separate Federal and State Tax Credit Investors in Bifurcated Structure</i>							
<i>4% TE Bonds</i>							
Sources of Funds					Amount	Per Unit	%
Federal LIHTCs	\$0.8575			\$ 4,972,505	\$ 88,795	40.12%	
GA Housing Tax Credits	\$0.5700			\$ 3,305,339	\$ 59,024	26.67%	
Total Investor Equity				\$ 8,277,844	\$ 147,819	66.79%	
	Rate	Term (yrs)	Amort (yrs)				
Permanent First Mortgage - DCA HOME	1.00%	20	20	\$ 2,600,000	\$ 46,429	20.98%	
First Soft Debt Mortgage - BeltLine	1.00%	40	40	\$ 990,000	\$ 17,679	7.99%	
Second Soft Debt Mortgage - HomeFirst	1.98%	30	30	\$ 400,000	\$ 7,143	3.23%	
Deferred Developer Fee	0.00%		12 years	\$ 125,000	\$ 2,232	1.01%	
			Total Sources:	\$ 12,392,944	\$ 221,303	100.00%	
Uses of Funds							
Land				\$ -	\$ -	0.00%	
Building Acquisition				\$ -	\$ -	0.00%	
Construction				\$ 8,448,398	\$ 150,864	68.17%	
Soft Costs				\$ 2,526,932	\$ 45,124	20.39%	
Developer Fees				\$ 978,000	\$ 17,464	7.89%	
Reserves				\$ 439,614	\$ 7,850	3.55%	
			Total Uses:	\$ 12,392,944	\$ 221,303	100.00%	

• Source: Woda Cooper



Jessica Perry, Director of
Development
Pennsylvania Housing Finance
Agency

PHTC Application Process and Procedure

1. In 2022, developers must apply for the PHTC at the same time he/she submits the application for 9% or 4% federal Low Income Housing Tax Credits.
2. The developer should disclose his/her intent to apply for the PHTC during the Intent to Submit period.
3. In tab 2, the developer must check all programs for which he/she is applying (i.e., federal 9% or 4% credits, Agency HOME funding, Housing Trust Fund, etc.). There will be a check box for the PHTC.
4. The developer must list the PHTC as a source in the capital budget in Tab 2.
5. Additionally, the developer must fully complete TAB 43 related specifically to the PHTC. A letter of intent from a PHTC investor must be included in TAB 43.

PHTC Application Process and Procedure Continued

5. PHFA will review the request for PHTC during the review of the federal LIHTC application.
6. After receipt and full review of PHTC requests, the agency will determine initial eligibility and issue conditional reservations to successful applicants. In order to be awarded PHTCs, the application must also be awarded a reservation of 9% LIHTCs or must be considered for an allocation of volume cap and 4% credits. However, not all applicants who are awarded an allocation of federal LIHTCs, may be awarded an allocation of PHTCs.
7. **The Agency will make all PHTC awards in its best discretion and reserves the right to reject any application.**
8. Once a project is awarded a conditional reservation of PHTCs, constructed, and completed, the Agency must be notified of the completion of the qualified low-income housing project. The agency will then verify compliance with the PHTC Act.
9. Following the verification, tax credit certificates will be issued. Credit certificates will be issued in an amount not to exceed 20% of the conditional reservation for each taxable year in the credit period.

- Any Questions?

