

Novogradac Report on Tax Credits **Summary: July 6, 2010**

Michael J. Novogradac, CPA, shares an update on the congressional calendar, summarizes new analysis of HUD's LIHTC database, discusses the CDFI Fund's latest update of its QEI Issuance Report, reviews predictions of the post-stimulus landscape for renewable energy, updates listeners on a solar water heating incentive being implemented in California, examines a report that highlights growth for the wind industry, and shares two Tax Credit Tuesday tidbits: one about the future of Fannie Mae and Freddie Mac, and the other about public comments received regarding the Capital Magnet Fund.

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CONGRESSIONAL CALENDAR

Schedule

- Lawmakers are slated to return from the July 4th recess on July 12th.
- Another district work period is scheduled from August 9–September 10
 - However, aides for Senator Reid indicate that the Senate is likely to work the week of August 9th given the heavy legislative load.
- The current House target for adjournment for the year is October 8
 - It's possible though that the House may not adjourn at that time but go on recess on October 8th and return after the elections in November.

Small Business Jobs Bill

- Last week, an amended version of H.R. 5297, the Small Business Jobs Act, was released yesterday by Senate Finance Committee Chairman Max Baucus, D-Mont., and Senate Committee on Small Business and Entrepreneurship Chair Mary Landrieu, D-La.
- The bill's provisions are meant to help small businesses access capital, stimulate investment in small businesses and promote entrepreneurship.
- Among other things, H.R. 5297 would extend the carryback for general business credits to five years for certain small businesses.
- There is a continuing effort to get the LIHTC consensus group's proposal for a 5-year carryback for the low-income housing tax credit to be included in this bill.
- The bill would also extend 50 percent bonus depreciation for property placed in service by 12/31/10.
- A summary of H.R. 5297 and more information about the Small Business Jobs Act can be found online at www.novoco.com/hottopics

Financial Reform

- On June 30th, the House passed its financial reform bill.
- The Senate could take up the bill after the Independence Day break.
- It's possible that the Senate will wait until a replacement is appointed for the late Senator Robert Byrd before taking up the bill.

Tax Extenders

- It's unclear what the next steps are and when the tax extenders package will be considered again in the Senate.

Other Issues

- Comprehensive energy legislation
- The continuing appropriations process
- Confirmation of Elena Kagan to the Supreme Court
- Campaign Finance Legislation
- Supplemental War Spending Bill

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NEW ANALYSIS OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S LATEST UPDATE TO ITS LIHTC DATABASE

Introduction:

- As part of its first quarter 2010 report on U.S. Housing Market Conditions, HUD's Office of Policy Development and Research released "Updating the Low-Income Housing Tax Credit Database: Projects Placed in Service Through 2007."
- HUD's LIHTC database now contains information on 31,251 LIHTC-financed properties placed in service between 1987 and 2007.

Key Findings:

- LIHTC units averaged \$8,422 of LIHTCs per unit.
- Tax credit properties tend to be larger than the average apartment property.
- The majority of tax credit properties were new construction.
- Properties in difficult to develop areas or qualified census tracts were more likely to be rehabs than properties in non-designated areas.
- The report also found that LIHTC properties were disproportionately located in areas with development costs that are low relative to income.

For the first time, HUD began collecting additional property data:

- The new data includes the amount of funding from the HOME, Community Development Block Grant and HOPE VI programs that properties receive as well as the amount of any Federal Housing Administration-insured loans that properties may have received.
- HUD also asked allocating agencies to provide the annual dollar amount of the LIHTC allocation for each property and to indicate the property's required minimum set-aside election.
- HUD also asked whether the tax credit property had a federal or state project-based rental assistance contract.
- Because the previous data collections focused on properties placed in service in 2006 and 2007, most of the new data elements were collected for 2006 or 2007 properties.
- The new data revealed that more properties received HOME funds than Community Development Block Grants or HOPE VI funding.
- Of the properties that received HOPE VI funding, that funding amounted to between \$30,000 and \$50,000 per unit.

For more information:

- HUD's Updating the Low-Income Housing Tax Credit Database: Projects Placed in Service Through 2007 is available for download at www.huduser.org/Datasets/lihtc/tables9507.pdf
- HUD's entire LIHTC Database is also available for download at lihtc.huduser.org.

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NMTC QUALIFIED EQUITY INVESTMENT REPORT

Introduction

- On Thursday, July 1st, the CDFI Fund released the update to its ongoing Qualified Equity Investment (QEI) Issuance Report.
- The report identifies, among other things:
 - each entity that has received allocations of new markets tax credit;
 - the total allocation amount received by each entity;
 - the dollar amount of allocation authority that has been issued to investors;
 - the amount remaining to be issued to investors; and
 - the predominant markets to be served by each entity.

Key figures

- In June, \$600 million of QEIs were issued.
- As of the July 1st report, there was \$8.4 billion in NMTC allocation authority remaining to be committed and/or finalized.
- Previous allocatees must meet certain QEI issuance thresholds by July 21st to be eligible for 2010 allocations.
- As such, a spike in QEI issuances is expected this month.

For more information

- A copy of the July report and previous months' reports are available online at www.newmarketscredits.com.
- To learn more about this report, contact Annette Stevenson in Novogradac & Company's Cleveland office at (216)298-9000.

On a related note

- The CDFI Fund is conducting training this week for 2010 NMTC allocation application reviewers.
- It appears the CDFI Fund is on track to make award announcements for the 2010 application cycle by the end of 2010.

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ACORE WARNS AGAINST “STIMULUS CLIFF” EFFECT

Introduction

- The American Council On Renewable Energy (ACORE) and the United States Partnership for Renewable Energy Finance (US PREF) jointly identified an impending gap in federal support for renewable energy projects at the close of 2010.
- At a press conference last week, leaders from the financial industry discussed the anticipated post-stimulus landscape for renewable energy.
- They expressed concern about potential deceleration and loss of jobs.
- In particular, the group called for extension of the Section 1603 renewable energy cash grant program, also known as the grant in lieu of investment tax credit program.

A Double Crisis

- ACORE says the renewable energy industry is facing a new double crisis:
 - first, a “stimulus cliff,” which will occur as the Recovery Act’s provisions sunset, and,
 - second, a drought of capital that continues because the financial crisis has not ended.
- The group warned that as financial crisis continues, the industry is at risk of losing thousands of jobs that were just gained under the Recovery Act.
- ACORE predicts that the tax equity markets are likely to remain extremely challenging and lack depth.
- They say the cash grant program, loan guarantee programs, and manufacturing incentives will continue to be needed to provide vitally important cash infusions and financing to project developers.
- In addition to the Section 1603 program, the group discussed the importance of production tax credits (PTC) and investment tax credits (ITC).

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CALIFORNIA RAMPS UP SOLAR WATER HEATING INCENTIVE PROGRAM

Introduction

- The California Public Utilities Commission is in the process of implementing a solar water heating incentive.
- California Solar Energy Industries Association executive director Sue Kateley spoke in June about the program and discussed its potential effects on the state's solar thermal market.
- Kateley's talk was part of a webinar sponsored by Intersolar North America called "Taking the California PV and Solar Thermal Markets to the Next Level."

About the Program

- The California Solar Initiative (CSI) Thermal Program is expected to achieve installation of at least 200,000 solar water heating systems on homes, businesses and government buildings by 2017.
- With a \$350 million budget, the thermal program offers rebates to new and existing homes and businesses that invest in solar water heating systems.

More Information

- For applications and other information go to www.gosolarcalifornia.org/solarwater.
- Further details on California's solar hot water incentive and what's next for the state's solar thermal market will be covered in the August issue of the Novogradac Journal of Tax Credits.
- You can also contact Stephen Tracy in Novogradac & Company's San Francisco office at (415) 356-8000.

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REPORT ON THE DOMESTIC WIND ENERGY SUPPLY CHAIN

Introduction

- According to a report released last week by the American Wind Energy Association (AWEA), BlueGreen Alliance and the United Steelworkers, the U.S. wind industry can create tens of thousands of additional jobs manufacturing wind turbines and components if the U.S. passes long-term policies that create a stable market for the domestic wind energy supply chain.

About the Report

- The report is called, “Winds of Change: A Manufacturing Blueprint for the Wind Industry.”
- It highlights growth for the American wind industry despite the absence of a long-term and stable market for wind energy, or policies to support wind’s manufacturing sector.
- The report says that growth in wind energy manufacturing has been steady — growing from 2,500 workers in 2004 to 18,500 in 2009.
- However, it also says that tens of thousands of *additional* jobs manufacturing wind turbines and components could be created with policies that establish a long-term, stable market and support the manufacturing sector’s transition to the wind industry.
- The report follows a recent announcement by AWEA and USW on a “framework agreement” to accelerate the development and deployment of wind energy production in the U.S.
- This report recommends:
 - a federal RES of 25 percent by 2025 with meaningful mid-term targets,
 - regulation of greenhouse gas emissions, and
 - policies specifically aimed at building the U.S. wind energy manufacturing sector.
- Along with the RES, specific policies aimed at building the wind manufacturing sector include:
 - extending and strengthening the Recovery Act’s Section 1603 cash grant program,
 - fully funding the Green Jobs Act,
 - building a transmission grid infrastructure to meet the demand for clean energy, and
 - using loan guarantee programs for commercial manufacturing of clean energy.
- The report recommends passing Senator Sherrod Brown’s IMPACT Act, which creates a state-level revolving loan fund to help small- and medium-sized manufacturers retool for clean energy markets and adopt energy efficient manufacturing.

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- The report also recommends extending and strengthening the Advanced Energy Manufacturing Tax Credit with specific incentives and accountability provisions to maximize domestic job creation, including giving highest priority to projects that manufacture clean energy component parts.

For more information

- A copy of the report can be found online at www.energytaxcredits.com.

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- On July 13th through the 15th, solar energy professionals will gather for Intersolar North America at the Moscone Center in San Francisco. The event focuses on photovoltaics and solar thermal technology. Details can be found online at www.intersolar.us.
- Looking ahead to the fall, Novogradac & Company is preparing a full line-up of tax credit events, including:
 - the 17th Annual Affordable Housing Tax Credit Conference on September 30th through October 1st in San Francisco,
 - the New Markets Tax Credit Investors Conference on October 20th and 21st in Chicago,
 - and the Financing Renewable Energy Conference on November 10th and 11th in Washington D.C.
 - register online at www.novoco.com.
- Last week the Tennessee Housing Development Agency announced the Governor's Housing Summit will be held on October 19th-20th at the Marriott Nashville Airport Hotel, in Nashville. Details about registration, sponsorship and exhibit opportunities will be available online at www.thda.org after August 1st.
- Also coming this fall is the IPED Historic Tax Credit Developers' Conference on October 7th and 8th in Philadelphia. Through case studies and panel discussions, developers seasoned in the use of the historic tax credit will share their experiences with for-profit and nonprofit building owners and developers from across the country who are interested in using these credits to finance their projects.

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TAX CREDIT TIDBITS

The Future of Fannie Mae and Freddie Mac

- In an interview on CNBC, Edward J. DeMarco, director of Federal Housing Finance Agency said that a housing sector without Fannie Mae and Freddie Mac is a possibility.
- Demarco said another future scenario might involve Fannie and Freddie remaining in business, but without dependence on the federal government.
- Demarco cautioned that success could happen only if an infrastructure is in place that allows private firms to re-enter the mortgage market.
- Either scenario is possible, but he said but both would need an appropriate transition because the housing market is still fragile.

Capital Magnet Fund Comments

- On July 1st, the CDFI Fund released public comments submitted about the Capital Magnet Fund.
- Six organizations submitted letters to the CDFI Fund in response to the request for comment issued on March 15, 2010.
- The Capital Magnet Fund, part of the Housing and Economic Recovery Act of 2008, will provide competitively awarded grants to community development financial institutions and qualified not-for-profit housing organizations.
- The organizations that submitted comments were the Housing Assistance Council, The Housing Partnership Network, Stewards of Affordable Housing for the Future, Massachusetts Housing Partnership, San Luis Obispo County Housing Trust Fund and Self-Help.
- Respondents provided comments on several aspects of the program.

Rural

- Organizations expressed concern about the program's definition of "rural."
- San Luis Obispo County Housing Trust Fund and the Housing Assistance Council both want the CDFI Fund the definition of rural that the U.S. Department of Agriculture uses for its housing programs. They feel that this is a better choice than the proposed non-metropolitan area definition.

Economic Distress

- The two organizations also expressed concern about what constitutes "economic distress." The CDFI Fund has proposed using Neighborhood Stabilization Program data to determine economic distress. HAC discouraged use of the NSP data because it only measures an area's foreclosure risk. San Luis Obispo County Housing Trust Fund suggested adopting the USDA's Economic Research Service definition instead.

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Rent, Targeting and Income Rules

- Respondents wanted the rent, targeting and income rules to conform to those of other federal housing programs.
- The Housing Partnership Network and Stewards of Affordable Housing for the Future said that deferring project-related rules to those of other funding sources would avoid adding a layer of complexity and cost to affordable housing projects.
- The Massachusetts Housing Partnership suggested using the HOME and low-income housing tax credit rent limitations and explicitly including Section 8 tenant income determinations.

Affordability

- Self-Help, which creates economic and homeownership opportunities for low-income families, felt that the 10-year affordability requirement could burden low-income families that may need to sell their homes before the end of the period.

For more information

- The comments in their entirety can be found at the New Markets Tax Credit Resource Center by clicking on the Capital Magnet Fund on the Hot Topics page.