NOVOGRADAC TAX CREDIT TUESDAY PODCAST

Summary: March 10, 2015

In this week's Tax Credit Tuesday podcast, Michael J. Novogradac, CPA, talks about the federal debt ceiling and why Treasury Secretary Jacob Lew is urging Congress to raise the debt limit as soon as possible. He also discusses updated consolidation guidance from the Financial Accounting Standards Board, and shares information about a new bill that was introduced to promote public-private partnerships in social enterprises. In affordable housing news, he shares key information about the release and implementation of HUD's fiscal year 2015 income limits. Then, he provides details on a new proposal package in California that would increase the annual state low-income housing tax credit cap by $300 million. In new markets tax credit news, he shares a Senate bill (S. 591) that was introduced to make the new markets tax credit a permanent part of the tax code. Then, he talks about how listeners can comment on the CDFI Fund's proposed annual assessment for the CDFI Bond Guarantee program. He announces a nominations deadline extension for the Novogradac Journal of Tax Credits Community Development Individual Achievement Awards. In historic tax credit news, he reviews the National Park Service's annual report on the federal historic tax credit. In state-level news, he talks about a second chance for California to have its own state historic tax credit program. He closes with the renewable energy tax credit section, in which he addresses a budget proposal in Louisiana that could scale back several of the state's tax credit programs, including its wind and solar tax credit. He also discusses how North Carolina's renewable energy investment tax credit is proving to be a sound investment.

Summaries of each topic:

GENERAL NEWS

Federal Debt Ceiling

- I'll start this week's general news section with a brief reminder about an important date coming up next week.
- Under current law, the Treasury will reach its statutory borrowing limit this coming Monday, March 16.
- The amount of outstanding debt subject to limit is now about $18.1 trillion.
    - That's about twice the outstanding debt subject to limit at the end of fiscal year 2007.
    - I should note that the $18.1 trillion dollar level includes $13 trillion in debt held by the public.
    - What's the difference? There is about $5.1 trillion in intragovernmental holdings, which is essentially the federal government borrowing from itself, made up of borrowings from Social Security and other governmental accounts.
- But let's turn back to the nominal debt limit.
- There is currently no statutory limit on the issuance of new federal debt because in February 2014, Congress suspended the debt ceiling through March 15, 2015.
    - That's this Sunday.
- So if Congress doesn't take action by next week, and it's not expected to, the federal government will need to use what is referred to as "extraordinary measures" to avoid breaching the debt ceiling.
- The Congressional Budget Office estimates that those measures would likely be exhausted by October or November of this year, so there is a bit of running room between now and then.
- Congress would then have to raise the government's borrowing authority.
- If Congress fails to increase the debt limit, the government would default on its U.S. obligations.
- That would lead to delays of payments for government activities, a default on the government's debt obligations, or both.
- Treasury Secretary Jacob Lew wrote Congress earlier this month asking it to raise the debt limit as soon as possible.
- I'll keep you updated on any developments.
- You can follow me on Twitter, @Novogradac.

FASB Consolidation Guidance Update

- Next, I'd like to talk about a subject I mentioned in prior podcasts.
- It's an update from the Financial Accounting Standards Board, or FASB, on its guidance on consolidation. That is, when a group of entities must report their activities on a consolidated basis.
- In the update, FASB eliminated an exemption from applying consolidation guidance that was in exiting rules related to certain entities.
- The new guidance though, mainly targets asset managers.
    - But it applies to all reporting entities.
- Changes were made that do affect partnerships, limited liability companies and nonprofit organizations with tax credit investments and properties.
- So how will this new guidance affect the tax credit community?

- Well, I don't expect that it will change current practice much.
- However, the new standard will require entities to evaluate fees for service arrangements and the effect of certain related parties differently in their consolidation analysis.
- Under the voting model approach to determine consolidation, ownership of a majority voting interest is the usual condition for a controlling financial interest. However, for limited partnerships, a limited partner must have substantive kick-out rights in order to be considered to have control.
- To learn more about how the new guidance affects your partnership, please contact my partner Bentley Stanton in our Atlanta metro office at 678-867-2333. Feel free to also send your question via e-mail to CPAs@novoco.com.

Social Impact Partnership Act

- I'd also like to discuss a new bill that was introduced to create a federal fund for promoting social impact partnerships or "pay-for-success" contracts.
- In general, social impact partnerships entail a private investor providing upfront capital for a social program.
- The government then pays back the investor only if prescribed social outcomes are accomplished.
- If the bill passes, the federal government would request proposals from states or local government for social impact partnership projects.
- The bill sets aside $300 million for payment to states for demonstrating that they achieved the program's target outcomes.
- Supporters of the bill say it would incentivize more efficient use of government resources and that it would attract private capital to social enterprises.
- The Social Impact Partnerships Act, or H.R. 1336, was introduced by Reps. Todd Young, a Republican from Indiana, and John Delaney, a Democrat from Maryland.
- Among its supporters is one notable House Ways and Means Committee member, Chairman Paul Ryan.
    - He praised it for supporting evidence-based policy.
- A copy of the Social Impact Partnership Act, or H.R. 1336, is available at www.newmarketscredits.com. For additional information, contact Peter Lawrence in our Washington DC office.

LOW-INCOME HOUSING TAX CREDIT NEWS

HUD Releases Income Limits for FY15

- Next, let's turn to low-income housing tax credit (LIHTC) news.
- The Department of Housing and Urban Development (HUD) last week finally released its income limits for fiscal year (FY) 2015.
- Next week, I'll provide some detailed analysis of trends and highlights in this year's income limits.
- In the meantime, I'll share key information about their release of the information and its implementation.
- This income limits are the basis for determining rents and qualifying maximum income levels for tenants in LIHTC properties.
- As such, the national and local area trends are very important to the long-term sustainability of LIHTC properties.
- The income limits are also used to determine eligibility for HUD's assisted-housing programs, including public housing, Section 8, Section 202 and Section 811.
- The release of the income limits was delayed this year.
    - Instead of being released in December, HUD delayed the release until now.
- The release delay was related to the change in definition of "extremely low-income" households, which is primarily used for setting admissions targets for the Housing Choice Voucher program.
    - The change was made in the 2014 Consolidated Appropriations Act.
    - Under that change, "extremely low-income household" is now defined as the higher of the Department of Health and Human Services poverty guidelines or 30 percent of the area median income.
    - Because of that, HUD's income limits couldn't be released until the Department of Health and Human Services 2015 poverty guidelines were published.
- These guidelines also include what is referred to as the multifamily tax subsidy projects, or MTSP, income limits, and they were consequently delayed as well.
    - These are the specific limits based upon AMI and other numbers that determine qualification levels and maximum rental rates for LIHTC properties as well as properties financed with Section 142 tax-exempt housing bonds.
    - They rely on Section 8 limits in how they're calculated.
    - Because of that, the MTSP income limits were released at the same time as all other HUD guidelines.
- The 2015 income limits are effective as of March 6, the date they were published.
- As I also said earlier, we will have more details on the impact of the changes in next week's podcast.
- There are some high level trends I'd like to share with you.
- These trends are overall good news. Incomes are on the rebound but there are still many areas where the income limits have not increased above their prior high water mark.
- So what do we know?
- Area median income levels saw an
    - average increase across geographic areas of 2.95 percent
    - Furthermore, 80 percent of geographic areas saw an increase
- This rise in area median gross income translates into 50 percent VLI or very low income 50 percent levels rising as well.

  - They rose an average of 2.59 percent
  - With an increase in 83 percent of geographic areas
- Lastly, MTSP 50% income levels rose, but not as at fast a pace.
  - They rose an average of 1.71 percent
  - With an increase in 58 percent of geographic areas
- Why did this level not rise quite as rapidly?
  - The MTSP income levels in hold harmless and HERA special areas experienced lower average growth levels because they had been held harmless in prior years and need to essentially grow at a rate to rise above the hold harmless floor levels.
- Novogradac & Company is updating its Rent & Income Limit Calculator to include the 2015 data.
- If you are a subscriber to Novogradac & Company's free industry alert email service, you will receive an email announcement when this update has been completed.
- To subscribe to the industry alert service, go to www.taxcredithousing.com and hover over the News tab.
  - From there, click on Industry Alerts.
- I also encourage you or someone on your staff to register for our upcoming webinar to learn more about the new limits and how to use them. The webinar is entitled "the 2015 HUD Rent and Income Limits and Your Tax Credit Property Webinar."
- Novogradac & Company will host the webinar next Tuesday, March 17.
- To sign up for the webinar, go to www.novoco.com and click on the Events tab, then on the Webinar tab.
- If you have any questions in the meantime, please contact my partner Thomas Stagg in our Seattle Metro office at 425-453-5783.
- Or, send an email to CPAs@novoco.com.

Proposed California State LIHTC Increase

- As I promised last week, I have more details for you on an affordable housing bill package introduced in California by Assembly Speaker Toni Atkins and colleagues.
- The plan includes four bills designed to increase and improve the state's affordable housing stock.
- One bill, A.B. 35, would increase California's state LIHTC by $300 million a year on top of its current $70 million program cap.
- I should note that A.B. 35 was originally introduced in December 2014.
  - As originally introduced, the bill proposed creating a $40 million state tax credit to serve very low-income, extremely low-income, single-room-occupancy and rural-area households.
- When the bill was amended earlier this month, that proposal was replaced with the provision I mentioned earlier that would expand the state LIHTC cap to $370 million.
- The second bill in the package, A.B. 1335, would establish a permanent source of funding for affordable housing by placing a $75 fee on real estate transaction documents, excluding home sales.
  - The fee is expected to generate $300 million to $700 million annually that would be used to fund affordable rental housing and other housing-related programs.

- The third bill, A.B. 90, would create a framework for how California will spend any funds received from the National Housing Trust Fund that are expected to begin flowing to states in 2016.
- And the fourth bill, A.B. 1056, deals with housing support for people who were formerly incarcerated.
- Supporters of the legislative package expect it to be a major economic driver for the state.
  - According to the speaker's office, an estimated 29,000 jobs would be created annually for every $500 million spent on affordable housing,
- To read the proposal package, go to www.taxcredithousing.com. For questions, send an e-mail to cpas@Novoco.com

NEW MARKETS TAX CREDIT NEWS

NMTC Senate Bill Introduced

- In new markets tax credit (NMTC) news, legislation to permanently extend the federal NMTC was introduced in the Senate last month.
- It was introduced by Sen. Roy Blunt, a Republican from Missouri.
- And its original cosponsors were Democrats Chuck Schumer of New York and Ben Cardin of Maryland, as well as Republican Steve Daines of Montana.
- Blunt introduced his bill a little more than two weeks after nearly identical legislation was introduced in the House of Representatives by Rep. Pat Tiberi of Ohio.
    - Tiberi's bill, I should note, now has 26 cosponsors.
- Both the House and Senate bills would make the NMTC permanent.
    - The NMTC program is authorized only through the current allocation round.
- The legislation would also set an annual inflation adjustment for the allocation amount.
    - As most listeners know, the NMTC program is currently authorized only through the current allocation round.
    - The legislation would also set an annual inflation adjustment for the allocation round.
    - As you know, the allocation amount for the 2014 round is $3.5 billion, but Novogradac & Company estimates that if the bill passes in 2015, there would be about $4.8 billion in allocation authority available.
- Furthermore, the new bill would allow the NMTC to be claimed against the alternative minimum tax, or AMT.
- House bill, H.R. 855, is posted on www.newmarketscredits.com.
    - And the Senate bill, S. 591, will be posted there also as soon as the text is available.
- If you have any questions, please contact my partner Owen Gray in our San Francisco office at 415-356-8000.

Annual Bond Guarantee Assessment

- In other news, the Community Development Financial Institutions Fund, or CDFI Fund, announced in a notice last week that it's inviting public comment on a proposed annual assessment for the CDFI Bond Guarantee program.
- The proposed reporting form would evaluate the performance of eligible CDFIs participating in the bond guarantee program.
    - It also applies to qualified issuers that have issued bonds under the program in fiscal year 2015 or later.
- The assessment would examine criteria, such as the participant's
    - financial strength,
    - portfolio management and servicing capability
    - and more.
- Written comments are due by May 4.
- The Federal Register notice and the proposed assessment form are posted at www.newmarketscredits.com.

Individual Achievement Awards Deadline Extension

- Before we move onto our next section, I'd like to remind listeners that the nomination deadline for the Novogradac Journal of Tax Credits Community Development Individual Achievement Awards has been extended to Thursday, April 9.
- These awards recognize public officials or executives who have positively affected the New Markets Tax Credit program and advanced community development policy and legislation.
- Winners will be honored at the Novogradac New Markets Tax Credit Conference on June 11 in Washington, D.C.
- I'd like to point out that highlighting the good work of community development advocates can be an effective tool for promoting the whole NMTC program.
- So, I encourage you to considering nominating an individual who deserves recognition.
    - It could be a colleague or someone you've worked with on a previous transaction.
    - Or perhaps a federal or state lawmaker you know is a strong supporter of the NMTC.
- You can go to www.novoco.com/awards for more information and to download nomination materials.

HISTORIC TAX CREDIT NEWS

National Park Service Annual Report

- In historic tax credit (HTC) news, the National Park Service recently released its annual report on the federal historic tax credit program's accomplishments in 2014.
- It found that more than 1,100 proposed projects and nearly $6 billion in qualified expenses were approved last year.
- Furthermore, 762 completed projects worth $4.32 billion in rehabilitation work were certified.
    - These completed projects created nearly 78,000 jobs.
- NPS reports that on the housing front, nearly 20,000 units were constructed or renovated using the HTC.
    - This includes more than 6,500 new low- and moderate-income housing units.
- A supplemental report found that last year, more than 50 percent of the projects receiving Part 3 certification for the federal credit also used state HTCs.
    - This is up from 40 percent in 2013.
- The report's findings for 2014 add to the program's already impressive resume.
- Since its inception in 1976, the federal HTC program has been used in more than 40,000 completed projects, generating more than $73 billion in investments.
- To read more about the National Park Service reports, go to www.historictaxcredits.com or contact Tom Boccia in our Cleveland, Ohio office.

California HTC Bill Introduced

- In state HTC news, I have another exciting update from California.
- California Assembly Speaker Toni Atkins introduced a bill last month to create a California HTC program.
- The bill would authorize $50 million a year in state HTCs.
    - This includes a $10 million set-aside for developments that have less than $1 million in qualified rehabilitation expenditures.
- The credits would be allocated from Jan. 1, 2016 to Jan. 1, 2024.
- The program would provide a credit equal to 20 percent of qualified expenditures.
- That being said, the credit *could* increase to 25 percent, if certain criteria are met.
- The larger credit percentage would be available if the rehabilitated structure meets one of the following criteria:
        - it's located on federal surplus property or in a designated census tract,
        - it's part of a military base reuse authority,
        - it's associated with a transit-oriented development, or
        - it includes affordable housing for low-income households.
- This bill is nearly identical to A.B. 1999, which Rep. Atkins introduced last year.
- That bill was passed by the Senate and Assembly before being vetoed by Gov. Jerry Brown in September 2014.
- In his veto message, the governor said he supported the bill's goals, but said its cost should be weighed against other budget priorities.
- So, it will be up to preservation advocates to demonstrate how the benefits of a state HTC program would outweigh its cost.
- Continued advocacy may influence the governor's opinion of the proposed program if the bill reaches his desk again this legislative session.

- To find the text of the current bill, A.B. 771, go to www.historictaxcredits.com.

RENEWABLE ENERGY TAX CREDIT NEWS

Louisiana Governor Proposes Tax Credit Cuts

- In renewable energy tax credit (RETC) news, Louisiana Gov. Bobby Jindal proposed a budget for fiscal year 2015-16 that slashes the state's tax credit programs, including a credit for wind and solar installations.
- Gov. Jindal's budget cuts $526 million in tax credit programs, nearly one-third of the state's $1.6 billion shortfall.
- To be precise, the governor's proposed cuts eliminate the *refundable* portion of 12 tax credits.
    - They don't eliminate the credit, just the ability of the taxpayer to receive more in credit than their tax liability in a given year.
    - That's significant, because what makes many tax credits attractive is the fact that taxpayers can still benefit from them, no matter what their tax liability is for a specific year.
- The wind and solar credit would be pared back dramatically, since $63 million was claimed in 2014.
    - It was already being phased out, with a deadline of Jan. 1, 2018.
    - The credit covers 50 percent of installation costs for people who install solar panels on their houses, up to $12,500.
- According to Gov. Jindal's figures, the change to make the credit non-refundable would save the state $57 million this year.
- As you can imagine, the proposal drew the ire of the state's renewable energy proponents.
- The head of the state's trade association for solar and renewable energy said the proposal would, quote "kill the solar industry in Louisiana," end quote, and it would cost the state at least 1,200 jobs.
- Meanwhile, the same budget proposal would also make the state HTC non-refundable.
- Historically in Louisiana, the legislature usually passes a budget that is close to what the governor proposes.
- So, it will be interesting to see what kind of budget ultimately wins the legislature's approval, which is expected in in May or June.
- Stay tuned for updates in future podcasts.

North Carolina RETC Report

- In other news, a report out of North Carolina reveals that renewable energy incentives–particularly the state's renewable energy investment tax credit (ITC)–have actually been profitable for the state over the past eight years.
    - That's because additional state and local taxes from renewables outpaced the amount of the tax credits allowed over that time.
    - The study also found that the state benefitted by adding nearly 45,000 full-time equivalent jobs in the renewable sector between 2007 and 2014.
- In that time frame, state renewable energy tax credits cost North Carolina approximately $182.6 million.
- However, renewable energy projects directly generated $186.1 million in revenue for the state.
    - That's a net $3.5 million gain.

  - And that doesn't include an estimated $97 million in secondary economic impact, according to the study.
- The report also showed that investment in renewable energy increased dramatically over the eight years.
  - The amount invested in 2014 was 38 times the amount invested in 2007.
  - And the state's so-called "cleantech sector" grossed $4.8 billion in 2014.
- This is particularly significant because North Carolina's renewable energy ITC is scheduled to expire at the end of this year.
- The study was prepared by RTI International for the North Carolina Sustainable Energy Association.
- It's called the "Economic and Rate Impact Analysis of Clean Energy Development in North Carolina–2015 Update."
- And we've posted a copy of the report for you at www.energytaxcredits.com.
- We'd appreciate any comments. Send them to cpas@ novoco.com.