Summary: July 28, 2020

In this week's Tax Credit Tuesday, Michael J. Novogradac, CPA, discusses the COVID-19 relief package that was introduced by Senate Republicans called the HEALS Act and the provisions it contains for individuals, businesses and HUD housing. Then, he discusses housing goals for 2021 that were releases by the Federal Housing Finance Agency. Next, he shares news about the upcoming new markets tax credit allocation round and other insights from the Novogradac New Markets Tax Credit Virtual Conference. He wraps up with a HUD announcement about COVID-19 supplemental payments for project-based rental assistance properties, and an announcement from the CDFI Fund regarding its proposed changes to the annual certification and data collection report form and the certification transaction-level report for CDFIs.

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GENERAL NEWS

COVID-19 Relief Package

Senate Republicans yesterday released their $1 trillion proposal for the next phase of COVID-19 relief legislation. The bill is called the HEALS Act, again one of those wonderful acronyms that someone in Congress is responsible for dreaming up. The acronym, HEALS, stands for Health, Economic Assistance, Liability Protection and Schools Act.

The legislation includes a second round of direct payments to individuals and families with the same income eligibility as in the CARES Act, as well as a second round of Paycheck Protection Program loans. The HEALS Act does not unfortunately—at least not yet—include any provisions related to the low-income housing tax credit, new markets tax credit, historic tax credit, renewable energy tax credit, opportunity zones or general business tax credits.

On housing related appropriations, the bill provides: $2.2 billion for tenant-based rental assistance to maintain current Section 8 vouchers for low-income families who have experienced a loss of income due to the coronavirus, there's $1 billion for the Public Housing Operating Fund, and $113.4 million for USDA's rental assistance program.

Senate Republicans will use this $1 trillion stimulus proposal as a starting point for negotiation with congressional Democrats. You may recall, House Democrats passed their own COVID-19 relief package in May. It had a price tag of $3 trillion, as compared to the $1 trillion Senate bill. And we expect that some provisions from the Moving Forward Act, H.R. 2, the House infrastructure bill, may be included in negotiations with the Senate.

Congressional leaders are hoping to come to agreement on COVID-19 relief legislation by mid-August, but there will be significant negotiations before reaching that point. The House Democrats' bill and the Senate Republicans' bill are different in both topline numbers $1 trillion versus $3 trillion and in specific provisions. The House was originally scheduled to recess at the end of this week, but that's obviously not going to happen now. The Senate is scheduled to recess next Friday, Aug. 7, but I imagine that date will slip as well.

I'll report any relevant updates in the coming weeks, and during the interim, follow me on Twitter for any updates along the way.

FHFA 2021 Goals for Fannie Mae, Freddie Mac

Last week on Monday, the Federal Housing Finance Agency, or FHFA, released proposed housing goals for Fannie Mae and Freddie Mac in 2021.

You might be wondering, we've covered these housing goals in prior podcasts, so why do these housing goals matter? The multifamily goals are important because they help drive Fannie Mae and Freddie Mac debt availability for low-income housing tax credit and other workforce-type properties.

The housing goals announced last week for 2021 are the same for Fannie Mae and Freddie Mac as they were for 2018-2020. More specifically, the housing goals that FHFA proposes are: The purchase of mortgages for multifamily properties totaling 315,000 low-income units, with the sub-goal of 60,000 for very low-income properties and the sub-goal for small low-income properties of five to 50 units is 10,000.

While the multifamily goals were not increased, I would not necessarily call the lack of an increase bad news. All this means is that debt for low-income housing tax credit and other workforce-type properties will continue to be available on a competitive basis.

What's of note, in the proposal, FHFA did explain that performance of Fannie and Freddie in 2018, 2019 and 2020 suggests that the enterprises may be able to reach higher benchmark levels. However, based on the economic disruption of the COVID-19 pandemic, the FHFA feels that extending these benchmarks at their current levels will provide challenging yet achievable goals. Most notable, instead of the normal three-year period, the proposed goals are for 2021 only. This is also because of the pandemic and the continued economic uncertainty. This also leaves itself open to being increased in 2022 or later years.

I'll include a link to the full proposal in today's show notes. If you have any questions about the proposal, please email cpas@novoco.com

NMTC Virtual Conference

Last week on Thursday, we hosted the Novogradac 2020 New Markets Tax Credit Virtual Conference. This conference had a variety of sessions and we hope attendees came away with new or renewed connections and a deeper understanding of issues that can help them make informed decisions.

Of course, a hot topic was the effect of the COVID-19 pandemic on the new markets tax credit community. COVID-19's impact is broad, as we're all experiencing.

First of all, the pandemic has affected the ability to get new markets tax credit developments completed. Over the past couple of months, the CDFI Fund and the IRS issued relief guidance for new markets tax credit stakeholders with time-sensitive requirements.

In addition to posing new challenges for meeting deadlines, COVID-19 and the economic reaction have also affected investor appetite for new markets tax credits. During our equity panel discussed how the pandemic has affected pricing. Panelists said they intend to invest in a similar number of new markets tax credit developments as before the pandemic.

However, panelists said that equity prices have dropped. In fact, panelists said new markets tax credit prices were already dropping before COVID-19, but the pandemic did exacerbate pricing issues. Lowered pricing per credit ultimately means less capital for distressed communities.

In our community development entities session, panelists agreed that new markets tax credit pricing has taken a hit. Again, prices haven't crashed, they've just declined. That does create some gaps in financing. If your new markets tax credit transaction is suddenly facing a larger-than-expected financing gap, I encourage you to reach out to a Novogradac office near you for assistance. We can help you seek and apply for additional resources to get your transaction to the finish line. Novogradac can also assist with compliance considerations.

Interestingly, some panelists pointed out two types of new markets tax credit businesses that seem to be doing well COVID-19. This isn't a surprise: Medical facilities and other businesses that are major job-creators. That those types of investments, properties or businesses work so well right now shows the flexibility of the new markets tax credit. The incentive can be leveraged in many ways to meet the current needs.

The demand for credits is also important, with the next round of allocations funded at $5 billion. The 2019 allocation, that was announced July 15, was for $3.5 billion, so next year's allocation authority is a big step up.

Speaking of the next round, the upcoming 2020 round of allocations is the final one authorized under current law. Our conference keynote speaker, House Ways and Means Committee Chairman Richard Neal, spoke about the need for making the credit permanent. Chairman Neal talked about the Moving Forward Act, the huge infrastructure bill that the House of Representatives passed July 1. That legislation would permanently extend the new markets tax credit.

The Moving Forward Act would also increase the allocation amount to $5 billion annually with an inflation adjustment. I say increased, but it really maintained the 2020 allocation.

Chairman Neal said the new markets tax credit has, quote, "been renewed consistently for two decades, but we are overdue for making it a permanent part of our tax code," end quote. Chairman Neal promised that he would not let the new markets tax credit expire at the end of this year. Having Chairman Neal's continued support for the new markets tax credit is critical for the future of the incentive and for the communities the incentive serves. I want to give a special thanks to Chairman Neal for his leadership and for taking the time to address our attendees.

A conference panel I moderated, called "Inside the Beltway," it's our Washington update session. There we discussed how the credit could be extended this year. Unfortunately, we don't expect the Moving Forward Act to pass the Senate in its current form, but there are some legislative vehicles that could include provisions. Among those provisions is the new markets tax credit extension.

My fellow panelists all expressed optimism that the next phase of COVID-19 relief, the so-called Phase 4 bill, might include the extension. I just noted earlier that's it's not in the Senate bill, but it could make its way in during negotiations between Senate Republicans and Congressional Democrats. We also discussed other options, as well as possible outcomes of November's election and the implications on the new markets tax credit.

The conference featured plenty of other information—we could cover it all here in the podcast.

There was an interesting question-and-answer session with three employees of the CDFI Fund. Trefor Henry, associate program manager, said that the CDFI Fund expects to issue an updated compliance FAQ document in the next month. The last time the FAQs were updated was March 2019. That was 16 months ago. Trefor highlighted a few things that he said will be included in the FAQs.

First, he said the CDFI Fund will revisit affordable housing, likely updating the definition of a housing unit. Second, he said the new document will add and codify that opportunity zones are included in the distressed community list. Trefor said there will be other issues, too. Again, expect the updated FAQs to be released sometime in August.

Be sure to subscribe to Novogradac's free industry alerts to be notified when those CDFI Fund FAQs are published.

As noted earlier, the next round of new markets tax credit allocations will be for $5 billion up from $3.5 billion. Christopher Allison, the program manager for New Markets Tax Credit Program at the CDFI Fund, told our attendees that it's reasonable to expect about 100 applicants to receive allocations. Christopher said that the number of awardees depends on the quality of applications received.

But he said it's fair to look at the 2008 and 2009 awards, each of which included $5 billion in allocation. In 2008, there were 102 awardees. In 2009, there were 99 awardees. For comparison, there were 76 allocatees for the most recent 2019 round with the $3.5 billion.

Christopher also said to expect the 2020 round to open late this summer or early fall, with a similar application window as in recent years. This means about seven or eight weeks between the round opening and the deadline for applications.

We appreciate everyone who took part in the Novogradac 2020 New Markets Tax Credit Virtual Conference. Thank you. Thanks to our panelists, attendees and sponsors.

If you were a conference attendee, you do have access to recordings of the sessions for 90 days after the event. If you were not a conference attendee, you can still purchase conference recordings through Novogradac's on-demand trainings page. I'll tweet out a link in case you're interested.

Other News

Shifting to other news, I have announcements from HUD and the CDFI Fund to assist stakeholders in light of the COVID-19 pandemic.

First, the announcement from HUD. Last week on Thursday, HUD released a notice announcing funding availability for COVID-19 supplemental payments for properties receiving project-based rental assistance. HUD made the funding announcement through Housing Notice 2020-08.

Congress authorized the supplemental funding through the CARES Act and it is intended to help property owners prepare for, prevent, and respond to COVID-19. The notice outlined several costs eligible for reimbursement through COVID-19 supplemental payments. Eligible costs include cleaning and disinfecting services, temporary staffing increases and personal protective equipment, or PPE. In total, the CARES Act authorized more than $1 billion in COVID-19 supplemental payments for Section 8, Section 202 and Section 811 properties.

If you're a property owner interested in applying for the supplemental funds, you must certify your property's financial need for the funds. In some cases, you may be required to submit additional documentation on your property's financial position. HUD will give equal consideration to all requests for supplemental payments submitted by Aug. 5.

That's a week from this coming Thursday, nine days from the time of this recording.

If you submit your applications after Aug. 5, HUD will only review your application after all other eligible applications have been funded. Considering the widespread need for these limited funds, you'll want to be sure to meet the Aug. 5 deadline. I'll include a link to the notice and to a draft application for the funding in today's show notes.

And if you have questions about whether your property is eligible to receive additional funding, or if you have questions about applying for funds, I encourage you to reach out to a Novogradac office near you.

I said I had two announcements about help for stakeholders during the pandemic. The second announcement came from the CDFI Fund last Tuesday.

That announcement extended the deadline to submit feedback on several applications and reports. You may recall in May, the CDFI Fund released announcements seeking feedback on proposed changes to its CDFI certification application. The CDFI Fund also requested comments on its annual certification and data collection report and new certification transaction-level report. The period to comment on all of these proposed changes was initially set to close Aug. 5.

Last week's announcement extends the deadline to submit feedback for those reports and applications. The three-month extension moves the deadline to Nov. 5.

I'll include a link to the announcement and a CDFI Fund webpage with information in today's show notes.

Related Resources

Novogradac Fall Events

Events Calendar

OpportunityDb Podcast

Key Takeaways from the Novogradac OZ Conference, with Mike Novogradac and John Sciarretti

Senate GOP Plan

HEALS Act

FHFA Proposed Housing Goals for Fannie and Freddie

FHFA 2021 Enterprise Housing Goals

Novogradac NMTC Virtual Conference

On-Demand Recordings

HUD COVID-19 Supplemental Payments

Notice 2020-08

Draft for HUD COVID-19 Supplemental Payment Request

CDFI Fund Comment Period Extension

CDFI Fund Notice, extension of comment period

CDFI Fund webpage for more information