



In this week's Tax Credit Tuesday podcast, Michael J. Novogradac, CPA, shares an important update on funding negotiations in Washington to avoid a government shutdown. Then, he discusses an analysis that Novogradac performed on the Moving Forward Act—specifically, he talks about how the bill's housing-related provisions could affect affordable housing development and preservation. Next, he discusses the recently announced demand for the CDFI Fund's Capital Magnet Fund program for the fiscal year 2020 round. He then talks about the Increasing Opportunities for Small Businesses Act of 2020 (H.R. 8120), a new bill meant to help small business owners learn about using the opportunity zones incentive. He wraps up with discussion about the Hemp Opportunity Zones Act of 2020 (H.R. 8131), a proposed community development incentive modeled after opportunity zones.

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GENERAL NEWS

Shutdown Discussions

The clock is ticking for Congress to pass legislation to keep the government funded beyond the Sept. 30 deadline. Failure to keep the government funded would result in a partial government shutdown.

There is one cause for cautious optimism is that House Speaker Nancy Pelosi and Treasury Secretary Steven Mnuchin have said that they've reached an informal agreement to pursue a continuing resolution or CR to avoid a shutdown. No details were available at the time of this recording on how long the stopgap funding bill would be in effect, although it's likely that the funding measure or bill would extend at least beyond the November election and into December.

If the CR goes through December, and then the Democrats keep the House of Representative, flip the Senate and win the White House, we would likely see legislators negotiate another CR in December to extend the CR to late February or early March so that Democrats can write the final 2021 spending bills more in line with their priorities. If Republicans retain the White House and/or Senate, Congress is more likely to consider a long-term 2021 omnibus spending bill in December.

Keeping the government funded and avoiding a shutdown is critical.

Government shutdowns cause disruptions that can be detrimental for families and communities who depend on funding for affordable housing and community development.

The most recent government shutdown lasted 34 days, from December 2018 to January 2019. During that shutdown, a HUD spokesman told NBC News that HUD lacked the funding to renew nearly 1,200 project-based rental assistance contracts that expired in December 2018 and January 2019.

That's just one example of what can happen when HUD funding is disrupted. The CDFI Fund also faced major consequences during the previous shutdown. All CDFI Fund staff deemed non-essential were furloughed, including new markets tax credit staff. This, in turn, delayed the announcement of the new markets tax credit allocation awards that year.

Initially, the awards were expected at the end of February. The awards weren't announced until the end of May, so a one-month shutdown led to a three-month delay in awards. Ultimately, this meant distressed communities had to go that much longer without much-needed new markets tax credit financing.

I'll keep a close eye on shutdown negotiations and will report any updates in future installments of Tax Credit Tuesday.

Moving Forward Act (H.R. 2) Analysis

Speaking of legislation being considered this year, Novogradac recently performed an analysis of the Moving Forward Act and its potential implications for affordable rental housing. Our analysis was underwritten, in part, by CREA LLC and RBC Capital Markets. We at Novogradac thank CREA and RBC for their underwriting support.

The Moving Forward Act, or H.R. 2, is a \$1.5 trillion infrastructure plan that was passed by the House in July and is awaiting action in the Senate. The Moving Forward Act includes proposals to



expand and strengthen the low-income housing tax credit, as well as provisions to enhance tax-exempt private activity bonds. Senate Democrats Ron Wyden of Oregon, Maria Cantwell of Washington, Michael Bennet of Colorado and Ben Cardin of Maryland introduced the Senate companion bill to H.R. 2's low-income housing tax credit provisions. The Senate bill is S. 4078.

Novogradac analyzed how the housing-related provisions of the Moving Forward Act could affect rental housing financing over the next decade.

In short, Novogradac found that housing provisions included in the Moving Forward Act could finance more than 1 million additional affordable rental homes from 2020 to 2030. If some or all of the provisions of the Moving Forward Act were passed, it would be very good news for affordable housing.

Provisions for low-income housing tax credit and private activity bonds in H.R. 2 include: Establishing a permanent 4 percent rate floor, temporarily reducing the 50 percent financed-by test for private activity bond-financed housing, a 50 percent basis boost for low-income housing tax credit units serving extremely low-income households, three 30 percent basis boost proposals primarily directed at 4 percent credit properties, two annual 25 percent plus inflation 9 percent allocation increases in 2021 and 2022, and there are other provisions as well.

One key principle to the analysis is that the proposals are "stacked," meaning that one foundational proposal is applied before the others, and estimates for the other proposals depend on that foundation.

For example, for the 4 percent credit, our analysis first estimated the impact of the 4 percent floor on unit financing, and the rest of the proposals affecting the 4 percent credit assume that the minimum 4 percent rate is in effect. Similarly, the effect of the 50 percent basis boost for units serving extremely low-income households is estimated after the annual 25 percent plus inflation allocation increase is applied.

I'll break down the numbers by provision, so you can see how each provision would benefit affordable housing.

First, enacting a 4 percent floor for properties receiving low-income housing tax credit allocations could finance 137,000 additional affordable rental homes from 2020 to 2030.

Next, providing annual 25 percent-plus-inflation allocation increases in 2021 and 2022 for the 9 percent credit could finance close to 320,000 additional affordable rental homes from 2021 to 2030. That assumes that the temporary 12.5 percent allocation increase expiring at the end of 2021 is made permanent.

The three basis boost provisions primarily for the 4 credit could create an additional 205,000 additional affordable rental homes over the next decade.

Temporarily reducing the 50 percent test for private activity bond-financed housing to 25 percent could finance close to 194,000 additional affordable rental homes in 2021 and 2022.

Enacting a basis boost for low-income housing tax credit developments serving extremely low-income households could finance an additional 114,000 affordable rental homes for 4 percent and 9 percent low-income housing tax credit properties financed over 2020 to 2030.



Finally, increasing the private activity bond cap by 10 percent could finance 44,000 additional affordable rental homes from 2020 to 2030.

This is just an overview of the numbers and how certain affordable housing provisions could increase affordable housing financing. It's not likely that all of the affordable housing provisions included in the Moving Forward Act will be enacted this year. But, advocacy efforts for these provisions are now more important than ever.

Recently, a bipartisan group of 103 House members have been pushing for the inclusion of the Moving Forward Act's low-income housing tax credit and private activity bond provisions to be included in the next COVID-19 relief bill.

You can read more about how these and other provisions could benefit affordable housing development and financing in a Notes from Novogradac blog post on the Moving Forward Act. I'll include a link to the blog post in today's show notes or you can go to directly www.novoco.com/blog. I'll also tweet it out as well.

Also, we'll be talking about these affordable housing proposals and more at the Novogradac 2020 Credit and Bond Financing for Affordable Housing Virtual Conference, Oct. 1-2. We expect more than 300 virtual attendees including developers, syndicators, lenders and more.

We will have a keynote address from Sen. Ron Wyden of Oregon, the top ranked Democrat on the Senate Finance Committee. As I mentioned earlier, he is the lead sponsor of Senate companion bill of the Moving Forward Act's low-income housing tax credit provisions. And if the Democrats flip the Senate in this November's election, he will be the chairman for the Senate Finance Committee. I'll include a link to register in today's show notes or you can go to www.novoco.com/events.



OTHER NEWS

In other news, the Community Development Financial Institutions Fund last Thursday announced that 137 organizations requested more than \$642 million in Capital Magnet Fund awards under the fiscal year 2020 application round.

The amount requested is more than 3.5 times the amount available, which illustrates a great demand for this community development resource. Capital Magnet Fund awards help finance affordable housing, related economic development activities and community service facilities. The CDFI Fund expects to announce awards in early 2021.

In legislative news, a House bill was introduced to help small businesses learn about opportunity zones. The bill is called the Increasing Opportunities for Small Businesses Act of 2020. The bill would require the Small Business Administration, or SBA, to train field representatives on the opportunity zones incentive.

The trained representatives would then be the point of contact for opportunity zones questions and resources in their areas. The SBA representatives would educate local leaders about the incentive and hold annual statewide opportunity zones seminars for business owners, government officials and anyone else interested in opportunity zones. The director of each SBA regional office would also be required to report annually on the success of this initiative, including any problems and best practices.

Staying on the topic of opportunity zones, a new community development incentive was proposed in the House recently that's meant to drive investment into low-income communities. The bill is called the Hemp Opportunity Zones Act of 2020.

The proposed incentive mirrors much of the enacting language of the existing opportunity zones incentive. But, the proposed bill specifically targets areas poised for economic growth that require access to a larger, commercial hemp market.

In case you are wondering about the difference between hemp and marijuana. Hemp has a low concentration of the substance THC, such that hemp does not produce the high or sensation of euphoria associated with marijuana. Marijuana has a high, pardon the pun, concentration of THC.

The bill would authorize state executives or governors to nominate a number of low-income census tracts for designation as hemp opportunity zones. Similar to existing opportunity zones, the proposed hemp opportunity zones would offer investors in those areas certain benefits. Those benefits include capital gains deferral and immediate expensing of qualified hemp opportunity zones business property. The bill also offers a few hemp farming-related tax credits.

The main takeaway for the purposes of our podcast is that the opportunity zones incentive is being used as a template for successful community development tax incentives.

You can learn more about opportunity zones and other community development proposals at our upcoming Novogradac 2020 Opportunity Zones Fall Virtual Conference, Oct. 22-23. Go to www.novoco.com/events to register.



Related Resources

H.R. 2 Analysis

[H.R. 2 Housing Provisions Could Finance More Than One Million Additional Affordable Rental Homes from 2020 to 2030](#)

[Register for the Novogradac 2020 Credit and Bond Financing Virtual Conference](#)

Capital Magnet Fund

[Capital Magnet Fund Application Demand FY 2020](#)

SBA-OZ Bill

[Increasing Opportunities for Small Businesses Act of 2020 \(H.R. 8120\)](#)

Hemp OZ Bill

[Hemp Opportunity Zone Act of 2020 \(H.R. 8131\)](#)

[Register for the Novogradac 2020 Opportunity Zones Fall Virtual Conference](#)

HTC Virtual Conference

[Register for the Novogradac 2020 Historic Tax Credits Fall Conference](#)