CAPITAL ANALYSIS OF THE PROPOSED MIDDLE-INCOME HOUSING TAX CREDIT
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Executive Summary

Novogradac has prepared a capital analysis that looks at the effect of enacting the proposed middle-income housing tax credit (MIHTC) as envisioned by Senate Finance Committee Chairman Ron Wyden, D-Oregon. In addition to a pool of tax credit authority allocated to states, this analysis also examines the potential of a separate pool of tax credits that would be generated by the allocation of tax-exempt private activity bonds (PABs) and could be used in conjunction with the 4% low-income housing tax credit (LIHTC). The proposal is intended to significantly jump-start affordable rental housing financing and reduce the tremendous deficit in the supply of affordable rental housing for more renters earning a little more than the traditional LIHTC income-targeting threshold nationwide.

In general, affordable rental housing depends on three main sources of financing: tax credit equity, debt and “soft” subsidies—funds and grants that are available from government sources or other lenders used to fill the financing gap between what is needed to develop the property and what the property can receive in equity and supportable debt. The MIHTC capital analysis illustrates the financing uses and sources of the following seven scenarios in selected markets based on actual properties identified in each location:

**SCENARIO 1:**  
Previous law - monthly floating rate for the 30% net present value for LIHTC property financed with residential rental tax-exempt PABs issued prior to Dec. 31 2020.

**SCENARIO 2:**  
Current law - monthly floating rate for the 30% net present value LIHTC is not less than 4%.

**SCENARIO 3:**  
Proposed minimum 5% MIHTC property including taxable debt financing.

**SCENARIO 4:**  
Builds on scenario #3, with 20 units further assisted by the proposed extremely low-income (ELI)\(^1\) basis boost.

**SCENARIO 5:**  
Current law 4% LIHTC, with proposed minimum 2% MIHTC and financed with residential rental PABs.

**SCENARIO 6:**  
Builds on scenario #5 with a proposed ELI basis boost on 20 of the 4% LIHTC units.

Notes:  
1. Extremely low-income households are households earning at or below the greater of: 30% of the areas median income or, the federal poverty line.

Source: Novogradac

Further details on these scenarios are included in the Methodology and Assumptions section that follows. To provide insight on how the capital analysis applies in a variety of markets, the assumptions above were applied in nine markets using data from cost certifications of actual PAB-financed LIHTC properties in those cities and using the relevant income limit and achievable market rents for those cities. The following nine markets were analyzed:
In each market, all of the scenarios are based on a property with 100 two-bedroom units and two sets of permanent financing terms were used. Four of the six scenarios include PAB financing, while two include taxable debt. For the tax-exempt debt analysis, a 6.0% interest rate with a 30-year amortization and 1.20 debt service coverage was used. The taxable debt scenario used a 7.5% interest rate with a 30-year amortization and 1.20 debt service coverage. Novogradac purposely used debt financing terms that were more in line to historical norms rather than current terms so that the capital analysis would still be relevant if market interest rates were to return to those historical norms. The total development costs for each development were based on cost certifications from actual properties and used to calculate the needed debt and equity.

Based on these presumptions, of the six scenarios under discussion, Novogradac’s analysis finds that MIHTC works in a variety of markets and reduces the need for additional soft financing.
The analysis shows that the introduction of a MIHTC allows developers to reduce the amount of soft financing needed, especially when used in conjunction with the 30% basis boost. In New York City, with a per-unit development cost of $467,000 the amount of soft financing needed to finance the gap ranges from 42.2% for properties financed under the law prior to 2021 at the floating rate and without a basis boost to 9.0% for properties using an MIHTC and located in a qualified census tract (QCT) or a difficult to develop area (DDA).

In Seattle, on the other hand, at most, 4.4% of the total development costs is needed in soft financing to allow for the development of the sample project regardless of location, with a sample development cost per unit of $326,000.

Of the remaining markets, analysis shows that in Boston, Cleveland and San Francisco, the introduction of a MIHTC means that soft financing would account for less than one-quarter of total development costs, and a 5% MIHTC, regardless of location, means no soft financing is needed in these metro areas. In Boise, Des Moines, Portland and Newark, the use of a MIHTC means approximately one-third or less of...
total development costs would be covered by soft financing. In each of these four markets, a 5% MIHTC with a 30% basis boost for properties located in either a QCT or DDA would negate the need for soft financing.

Based on the analysis, enacting a MIHTC to be used with LIHTC and PABs would enable developers to finance properties in a variety of markets with less additional soft financing to fill the financing gaps, making it much easier to address the severe affordable rental housing shortage in the United States. Furthermore, the income demographics served would not only include the lowest-income households, but also the households earning a little more than the LIHTC income thresholds, providing for more mixed-income housing.
Background

The country’s affordable housing crisis is well documented, both as it existed before the onset of the COVID-19-related economic downturn and throughout 2020 as renters faced difficulties keeping up with rent payments in the face of job loss due to pandemic-related business closures. Pre-pandemic, low- and moderate-income households, in particular those eligible to reside in LIHTC-financed affordable rental homes and renters who earn just above the LIHTC qualifying income threshold, struggled to cover their housing costs. Numerous analyses lay bare the hardships faced by renter households in both in terms of finding affordable housing and being able to remain in the housing they currently inhabit.

In America’s Rental Housing 2020, the Joint Center for Housing Studies (JCHS) of Harvard University shows that in 2018, nearly 11 million renter households were severely cost-burdened, spending more than half of their income on rent. Little is left over for other necessities, such as food, health costs and transportation, when rent takes up such a large portion of income. The face of renters has been changing, with the percentage of renters among households that typically would be homeowners – higher-income households, those aged 34-64 and households with children – increasing from 1994 to 2018. This change in the composition of renter households has changed the ways in which developers meet supply, with new additions to supply targeting the higher end of the income scale, leaving those eligible for LIHTC housing and those earning slightly more than 60% of AMI, struggling to find housing they can afford. Nearly three-fourths of renters (72%) who earned less than $15,000 were severely rent burdened. For renters earning $15,000 to $29,999, 43% were severely rent burdened. Even among moderate and middle-income renter households, JCHS’ analysis found an increase in the number of cost-burdened households. Among the various income cohorts, the largest percentage increase in cost-burdened renter households from 2011 to 2018 occurred among households earning $30,000—$44,999 annually, where there was an increase of 5.4 percentage points to 56%. Though cost burdens are appearing higher up along the income scale, those facing affordability issues are finding that assistance is not available—only 23% of eligible low-income households receives any federal housing assistance.

These issues are further exacerbated by the fact that the nation’s affordable rental housing stock is disappearing, as nearly 4 million low-cost units were lost between 1990 and 2017, and the nation continues to lose affordable rental homes annually due to market-rate conversion, expiration of federal assistance, obsolescence and deterioration. Freddie Mac research using renter income, as opposed to median family income, found that from 2010 to 2018, fewer than 10% of all rental homes were affordable to households earning less than 50% of the median renter income. In The State of the Nation’s Housing 2020, JCHS reports that between 2004 and 2019, 2.5 million units with rents less than $600 disappeared from the housing stock. The JCHS renter housing reports that while the number of homes renting for $1,000 or more has been increasing since 2011, the units renting for $600 to $999 have been
decreasing since 2014, putting pressure on those households who may earn too much to be eligible for LIHTC housing but not enough to find housing they can afford. During this timeframe, shifts were seen in the rental housing stock, with increases in supply occurring among single-family rental homes and large multifamily buildings, building types that were prone to significant rent increases. These changes intensified affordability challenges: the supply of apartments in multifamily buildings with two to four units, properties that are typically more affordable, fell by 38,000 while there was an increase of 6.6 million rentals among buildings with at least 20 units and among single-family rentals.

The LIHTC is the leading tool for expanding the supply of affordable rental housing, having financed nearly 3.5 million affordable rental homes since the program’s inception in 1987. As such, affordable housing advocates have worked to ensure the LIHTC continues to provide housing for low-income renters by supporting provisions to strengthen the tax credit. There are two types of LIHTC percentages, commonly referred to as 9% and 4% LIHTCs, and formally known as the “70% present value credit” and the “30% present value credit,” respectively. The credits differ in general purpose, the level of subsidy provided, and the process developers must go through to obtain credits. The 9% credit is designed to subsidize 70% of the eligible low-income unit costs in a property financed without tax-exempt private activity bonds and is primarily used for new construction. The 30% subsidy, on the other hand, is primarily used for the acquisition and rehabilitation of existing properties where additional subsidies are needed. Developers wishing to use the 9% credit must apply for an allocation of federal credits from a capped pool of credit authority allocated to each state based on the state’s population. Because the amount of available 9% credits is limited, this is a very competitive process and the 9% LIHTC is essentially fully utilized. Properties financed by PABs generate 4% LIHTCs, and unlike 9% LIHTC, are not limited at the program level (though each property has a maximum), other than the overall limit of the PAB cap. When creating a housing tax credit to address the needs of renter households who don’t qualify for the LIHTC, the framers turned to this proven model for the 2% and 5% MIHTC.

Research shows more households earning just above LIHTC income limits are finding it difficult to obtain affordable housing; one way to meet renters’ needs is to increase the sources of financing available to developers in the form of a MIHTC. Before becoming Senate Finance Committee Chair, Sen. Ron Wyden (D-Oregon) introduced legislation to create a MIHTC in both the 114th Congress (S. 3384) and the 115th (S. 3365). A MIHTC provision is poised to be introduced as part of comprehensive housing legislation once again during the current congressional session. As noted above, the proposal is based on the LIHTC and picks up where this incentive leaves off, addressing the housing needs of renters earning between 60% AMI and 100% AMI. A new Internal Revenue Code Section 42A aimed at developers would be created – and administered by states – to encourage the building of affordable rental housing for Americans earning slightly more than the LIHTC income limits.
Just as with the LIHTC, the federal government would allocate tax credits to the states based on population. For 2019, the allocation would be $1 per capita with a $1.14 million small-state minimum. An additional 5 cents per capita above this allocation would be reserved for middle-income housing developed in rural areas. State housing authorities would then allocate the tax credits to developers through a competitive process. The tax credits would be provided to developers over a 15-year compliance period. The credit amount would equal 50% of the present value of the qualifying costs, or a minimum rate 5% annually, similar to the minimum rates established for the LIHTC. However, state agencies would only allocate so much credit as makes a property feasible.

To qualify for the credit, a rental property would need to meet two affordability standards: 1) a property would have to include a minimum percentage of affordable units; and 2) rents for those units could not exceed limits based on median incomes in the area. Specifically, at least 60% of the property's units must be occupied by individuals with incomes of 100% or less of area median gross income (AMGI). Furthermore, tenants’ rents must not exceed 30% of 100% of AMGI. The affordability restrictions would remain in place for up to 15 years after the compliance period. Credits are discontinued to the developer if a project fails to meet these income/rent requirements.

The analysis conducted looks at various iterations of the MIHTC – a proposed minimum 2% MIHTC and a minimum 5% MIHTC – to be used together with the 9% and 4% LIHTC to provide additional tax credit equity financing to developers of rental housing affordable to households earning more than the LIHTC income targeting thresholds, thus decreasing the need for soft financing.
Major Sources of Soft Financing

Often referred to as “soft financing” or “soft debt,” gap funding from a variety of federal, state and local sources often have more favorable financing and repayment terms than conventional loans. There are, however, requirements that need to be met, in addition to the LIHTC income and affordability requirements, in order to take advantage of these funding sources. When using funds from multiple programs to finance the same property, developers must ensure compliance across all programs in terms of tenant eligibility, certifying income, determining rents and managing the unit mix, above and beyond what is required by the LIHTC. Developers must also keep in mind that the most restrictive requirements of each financing source will have to be met to stay in compliance, which adds a level of complexity.

There are numerous programs, too many to list here, that developers can avail themselves of. Examples of soft financing include, but is not limited to:

**U.S. Department of Housing and Urban Development (HUD) administered programs**

*Block grant programs.*
Both the HOME Investment Partnership Program (HOME) and the Community Development Block Grant (CDBG) are formula-driven block grant programs where states and localities are provided funds for a number of eligible activities – while HOME was created to address housing affordability issues and CDBG has a much more varied list of activities, both programs’ funds can be used to support affordable housing activities, including rental properties for low- and very low-income households. As such, both can be used to fill the financing gap for LIHTC developments.

*Project-based assistance.*
HUD administers a variety of project-based rental assistance programs where the subsidy is tied to homes within rental properties. The two largest are the Project Based Rental Assistance program (PBRA) administered by the Office of Housing where HUD contracts directly with private rental housing owners, and project-based vouchers (PBVs) administered by the Office of Public and Indian Housing, where HUD contracts with public housing agencies (PHAs), which in turn allocate the PBVs to a specific property. These subsidies can be used to finance affordable rental housing in conjunction with the LIHTC. HUD’s Office of Housing also administers two supportive housing programs that are often used in conjunction with LIHTC to serve specific populations—the Section 202 Supportive Housing for the Elderly and the Section 811 Supportive Housing for People with Disabilities.
Assistance to serve special needs populations.
Under the McKinney-Vento Homeless Assistance Act, HUD’s Office of Special Needs Assistance Programs within the Office of Community Planning and Development administers programs to provide outreach, shelter, transitional housing, supportive services, short and medium-term rent subsidies, and permanent housing for people experiencing homelessness, and in some cases for people at risk of homelessness. Funding for these activities is distributed by formula to jurisdictions for the Emergency Solutions Grants program, and competitively for the Continuum of Care process. Project-based resources authorized under McKinney-Vento are often used as soft financing sources with the LIHTC. HUD also administers the Housing Opportunities for People with AIDS (HOPWA), which sometimes is used with the LIHTC.

U.S. Department of Agriculture (USDA) multifamily housing programs

The USDA’s multifamily housing programs fund developments in rural communities for low-income households. A number of financing options are provided, including Section 515 Multifamily Housing Direct Loans and the Section 538 Multifamily Housing Loan Guarantee program. Direct loans provide competitive financing for affordable, multifamily rental housing for low-income, elderly or disabled individuals and families in eligible rural areas. The loan guarantee program works with qualified private-sector lenders to provide financing to qualified borrowers to increase the supply of affordable rental housing for low- and moderate-income individuals and families in eligible rural areas and towns. Both programs are used with the LIHTC.

Federal Sources authorized by the Federal Housing Finance Agency (FHFA)

Though administered by HUD, Treasury and Federal Home Loan Bank member institutions, these programs are discussed together as they are funded by contributions from Fannie Mae, Freddie Mac, and the Federal Home Loan (FHL) Banks, the housing government sponsored entities.

National Housing Trust Fund (HTF).

HUD allocates HTF funding by needs-based formula to states for the production or preservation of affordable housing for very low-income households.

Capital Magnet Fund (CMF)

The CMF competitively awards money to nonprofit housing organizations and Community Development Financial Institutions (CDFIs) to finance affordable housing for low-income households and related economic development, including community service facilities.

Affordable Housing Program (AHP)

Each FHL Bank must establish an AHP and dedicate 10% of its annual earnings to this program. Funds can be used for the purchase, construction or rehabilitation of rental housing.
**State and Local Sources**

**State LIHTC programs**
In addition to the federal LIHTC, there are separate state programs – currently there are 18 state housing tax credit programs, with additional programs proposed – that can be used to finance affordable rental housing properties. State programs can vary widely, with different compliance periods, recapture stipulations, funding caps and more.

**State and local affordable housing bonds**
To support the development and preservation of affordable housing, cities, counties and states can choose to issue bonds to provide subsidies for affordable housing projects or fund other affordable housing programs or other related purposes. State and local governments may have laws and provisions that require taxpayer approval for the issuance of new bonds or bonding authority and as such, this form of financing for rental housing is not as common as state housing tax credits.

**Other state and local sources**
In addition to state housing credits and bonds, states and local funding sources can include state and local housing trust funds, assistance provided to developers in the form of relief from their property taxes, state and local rental assistance programs, and tax increment financing.

**Deferred Developer Fees**
Another way of filling the funding gap between the amount of permanent debt that can be supported by a project and equity contributions is to defer the payment of developer fees owed to the developer until after the project has been placed in service. Where market-rate housing developers are compensated by a portion of the asset appreciation and cash flow, in LIHTC properties, developers are compensated by a specific fee as set by state agencies. Sometimes, given the financing needs of a particular property, instead of receiving the fee upon completion, some or all of the fee is deferred and paid over time.

**Seller Notes**
The purchase price of a LIHTC property is typically the appraised value, in order to constitute an arm's-length transaction. The seller may decide to only require a portion of the purchase price to be paid in cash. When the seller of a property agrees to finance the remaining portion of the sale, a note is issued detailing the terms under which they will be repaid by the buyer.
Methodology and Assumptions

To determine the effects of enacting an MIHTC, on equity raised and debt needed, Novogradac determined both the uses and sources for a sample LIHTC development in nine markets across the country.

Subject Properties—Uses

The properties analyzed in each of the nine cities are 100-unit developments that were acquired and rehabilitated. The analysis was based on cost certification data from actual properties and new construction properties were not included in the sample so as to focus the analysis on similar properties across markets. The building portion of the acquisition price, as well as hard costs and eligible soft costs, were used to calculate the tax credit equity. Examples of eligible soft costs include architect fees, engineering fees, real estate taxes and construction loan interest. The acquisition of land and ineligible soft costs are not included in the tax credit equity calculation. Examples of ineligible soft costs are cash reserves, tax credit fees and bond issuance costs.

The following is the total development cost per unit for each city based on a sample of cost certifications of actual properties used in the analysis:
Subject Properties—Sources
The permanent financing for each property was based on the amount of debt it could support based on the income targeting and achievable market rents in the selected markets. The applicable rents that could be charged are discussed in the scenarios below. Four of the five scenarios analyzed include PAB financing while the fifth includes taxable debt. The terms used for the tax-exempt properties were a 6.0% interest rate with a 30-year amortization and 1.20 debt service coverage. The taxable scenario used a 7.5% interest rate with a 30-year amortization and 1.20 debt service coverage. Though interest rates on tax-exempt and taxable bond financing are currently below the 6.0% and 7.5% assumptions, respectively, used in the analysis, in order to analyze the long-term viability of the tax incentive, Novogradac purposely used debt financing terms that were more in line to historical norms rather than current terms so that the capital analysis would still be relevant if market interest rates were to return to those historical norms.

According to data we collect quarterly, national median LIHTC equity pricing for developers is about $0.90 for each tax credit dollar. For MIHTC equity, we assumed that investors would demand the same internal rate of return as LIHTC, but given that MIHTC is claimed over 15 years, the equity price is discounted to $0.80.

After considering the amount of debt a property could support and the amount of tax credit equity it could generate, the property either required additional soft financing to cover the remaining eligible costs or a financial feasibility adjustment was made to reduce the amount of tax credit equity. For LIHTC, that is generally driven by the imputed rents based on the income targeting of the units. However, since the baseline assumption for the MIHTC analysis is that the highest income-targeting level of 100% AMI is assumed for all MIHTC units, if the highest allowed imputed rents for AMIs for a particular market are higher than achievable market rents, then we limit the amount of debt able to be supported to the rental income generated by the achievable market rents. For Boise, Cleveland, Des Moines, New Jersey, Portland and Seattle, such limits were applied.

Previous law with tax-exempt bond issuance before Dec. 31, 2020
Properties financed with tax-exempt PABs issued before Dec. 31, 2020, are subject to a monthly floating tax credit rate. The tax credit rate as of December 2020 was 3.09% and tax credit equity generated for the sample property was calculated assuming this floating rate. The property must also meet one of the three statutory minimum set-asides:

- 20% of the units rented to households earning 50% AMI or less,
- 40% of the units rented to households earning 60% AMI or less, or,
- 40% of the units rented to households averaging 60% AMI (Average Income Test).
The property is assumed to rent 100 two-bedroom units to households earning 60% AMI. The maximum allowable rents were reduced by a utility allowance and then compared to potential rents that could be achieved in each city, based on a recent determination by Novogradac's Valuation Group. The lesser of the reduced maximum rents or the achievable rents was used to determine the net operating income.

**Scenarios**

**Scenario 1: Previous law with tax-exempt PABs issued prior to Dec. 31 2020**
Properties financed with tax-exempt PABs issued before Dec. 31, 2020, are subject to a monthly floating tax credit rate that could be below 4%. The December 2020 tax credit rate for PAB-financed properties as noted above is 3.09%. The property is assumed to rent 100 two-bedroom units to households at 60% AMI. It is assumed that this property would obtain a loan with a 30-year amortization period at a 6.0% interest rate and operate at a 1.20 debt-service-coverage ratio, with $0.90 of equity per $1.00 of LIHTC (claimed over 10 years).

**Scenario 2: 4% LIHTC floor—Current law with tax-exempt bond issuance after Dec. 31, 2020**
Properties financed with tax-exempt PABs issued after Dec. 31, 2020, are subject to a minimum tax credit rate of 4%. Since the March 2021 tax credit rate for PAB-financed properties as noted above is 3.09%, a 4% tax credit rate was used to calculate the tax credit equity. The property is assumed to rent 100 two-bedroom units to households at 60% AMI. As in scenario #1, loan terms were assumed to be a 30-year amortization period at a 6.0% interest rate, operating at a 1.20 debt-service-coverage ratio, with $0.90 of equity per $1.00 of LIHTC (claimed over 10 years).

**Scenario 3: Allocated 5% MIHTC with taxable debt**
For this scenario, all 100 two-bedroom units would be available to households at 100% AMI. The loan terms used were 7.5% interest rate on taxable debt, 30-year amortization, 1.20 debt service coverage ratio with $0.80 of equity per $1.00 of MIHTC (claimed over 15 years).

**Scenario 4: 5% MIHTC with ELI basis boost**
To provide deeper income targeting, an ELI basis-boost was added to scenario #5. Of the 100 units, 80 units are targeted to households at 100% AMI, 20 units to households at 30% AMI. Loan terms and equity pricing detailed in scenario #4 were used.
Scenario 5: 4% LIHTC with a 2% MIHTC and tax-exempt bonds
Under this scenario, 40 of the units are targeted to households at 60% AMI and 60 of the units are targeted to households at 100% AMI. This unit and income-targeting mix satisfies the minimum required for LIHTC, PABs and MIHTC. Loan terms and equity pricing detailed in scenario #4 were used.

Scenario 6: 4% LIHTC with a 2% MIHTC, tax-exempt bonds and ELI basis boost
This scenario builds on scenario #5, providing deeper income targeting by including an ELI basis boost. Of the 100 units, 60 were rented to households at 100% AMI, 20 were rented to households at 60% AMI and 20 units to households at 30% AMI. Loan terms and equity pricing detailed in scenario #4 were used.
Results of Analysis

In each market, the same permanent financing terms and development size were used. The following notes apply to each market graphic that follows:

1. 100 two-bedroom units at 60% AMI;
2. 6.0% interest rate on tax exempt debt, 30-year amortization, 1.20 debt service coverage ratio;
3. $0.90 of equity per $1.00 of low-income housing tax credit (claimed over 10 years);
4. 100 two-bedroom units at 100% AMI;
5. 80 two-bedroom units at 100% AMI, 20 two-bedroom units at 30% AMI;
6. Equity calculated using current tax credit rate of 3.09%;
7. Equity calculated using a 4% floor;
8. 7.5% interest rate on taxable debt, 30-year amortization, 1.20 debt service coverage ratio;
9. ELI basis boost of 50% on 20% of the units, QCT/DDA basis boost of 30% on 80% of the units;
10. 60 two-bedroom units at 100% AMI, 40 two-bedroom units at 60% AMI;
11. 60 two-bedroom units at 100% AMI, 20 two-bedroom units at 60% AMI, 20 two-bedroom units at 30% AMI;
12. $0.80 of equity per $1.00 of middle-income housing tax credit (claimed over 15 years); and,
13. 60% of equity is MIHTC at $0.80 per $1.00, 40% of equity is LIHTC at $0.90 per $1.00.

Novogradac’s capital analysis finds that using the assumptions described above, in all markets the amount of soft financing needed decreases as the MIHTC tax credit percentage increases, along with the use of locational and income basis boosts. The Seattle market appears to see the most benefit – with a MIHTC, at most, gap financing would account for 4.4% of the total development costs and in those cases where a 5% MIHTC is used, regardless of location, or a MIHTC is combined with the LIHTC and PAB, no soft financing is needed.
In Boston, Cleveland, and San Francisco, the introduction of a MIHTC means that soft financing would account for less than one-quarter of total development costs and a 5% MIHTC, regardless of location, means no soft financing is needed.
### Capital Analysis of the Proposed Middle-Income Housing Tax Credit

**San Francisco, CA**

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<th>Market Sources (Thousands)</th>
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<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
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<td>Current Law - Bonds Issued After Dec. 31, 2020 - 4% Floor</td>
<td>5% MIHTC, With Taxable Debt Financing</td>
<td>5% MIHTC + ELI Basis Boost</td>
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<td>$31,199</td>
<td>$31,199</td>
<td>$31,199</td>
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</table>

**Cleveland, OH**

<table>
<thead>
<tr>
<th>Market Sources (Thousands)</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
<th>Scenario 6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Previous Law - Bonds Issued Prior to Dec. 31, 2020</td>
<td>Current Law - Bonds Issued After Dec. 31, 2020 - 4% Floor</td>
<td>5% MIHTC, With Taxable Debt Financing</td>
<td>5% MIHTC + ELI Basis Boost</td>
<td>4% LIHTC + 2% MIHTC + PABs</td>
<td>4% LIHTC + 2% MIHTC + PABs + ELI Basis Boost</td>
</tr>
<tr>
<td>Debt</td>
<td>w/o Basis 30% Basis Boost</td>
<td>30% Basis Boost</td>
<td>w/o Basis 30% Basis Boost</td>
<td>w/o Basis 30% Basis Boost</td>
<td>w/o Basis 30% Basis Boost</td>
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<td>$8,472</td>
<td>$6,463</td>
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<td>$22,200</td>
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<td>30% Basis Boost</td>
<td>w/o Basis 30% Basis Boost</td>
<td>w/o Basis 30% Basis Boost</td>
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</tbody>
</table>

**Market Data:**
- **San Francisco, CA:**
  - State: California; County: San Francisco County; MSA: San Francisco, CA HUD Metro FMR Area
  - Four-Person AMI: @80% - $139,200; @60% - $104,400; @30% - $52,200
  - Two-Bedroom Rent: @80% - $3,132; @60% - $2,349; @30% - $1,174; Achievable two-bedroom market rent - $1,300
  - Utility Allowance - $379
- **Cleveland, OH:**
  - State: Ohio; County: Cuyahoga County; MSA: Cleveland-East, OH MSA
  - Four-Person AMI: @80% - $60,800; @60% - $45,600; @30% - $22,800
  - Two-Bedroom Rent: @80% - $1,368; @60% - $1,026; @30% - $513; Achievable two-bedroom market rent - $1,300
  - Utility Allowance - $209

* A survey of 6 market rate properties was conducted to calculated achievable market rents in MSA.

Source: Novogradac
The use of a MIHTC in Boise, Des Moines, Portland and Newark means approximately one-third, or less, of total development costs would be covered by soft financing. In each of these four markets, a 5% MIHTC with a 30% basis boost for properties located in either a QCT or DDA would negate the need for soft financing.

<table>
<thead>
<tr>
<th>Market</th>
<th>Sources (Thousands)</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
<th>Scenario 6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Previous Law - Bonds Issued Prior to Dec. 31, 20201</td>
<td>Current Law - Bonds Issued After Dec. 31, 2020-4% Floor</td>
<td>5% MIHTC, With Taxable Debt Financing4</td>
<td>5% MIHTC + ELI Basis Boost5,9</td>
<td>4% LIHTC + 2% MIHTC + PABs10</td>
<td>4% LIHTC + 2% MIHTC + PABs + ELI Basis Boost10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>w/o Basis Boost</td>
<td>30% Basis Boost</td>
<td>w/o Basis Boost</td>
<td>30% Basis Boost</td>
<td>w/o Basis Boost</td>
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<td>$6,7942</td>
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<td>Equity</td>
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<td>($1,984)</td>
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<td>$22,500</td>
<td>$22,500</td>
<td>$22,500</td>
<td>$22,500</td>
</tr>
</tbody>
</table>

Market Data: Year - 2020; State - Idaho; County - Ada County; MSA - Boise City; ID; HUD Metro FMR Area
Four-Person AMI: @80% - $59,840; @60% - $44,880; @30% - $22,440
Two-Bedroom Rent: @80% - $1,384; @60% - $1,011; @30% - $505; Achievable two-bedroom market rent - $4,000
Utility Allowance - $124
* A survey of 5 market rate properties was conducted to calculated achievable market rents in MSA.

Source: Novogradac
## Market Sources (Thousands)

<table>
<thead>
<tr>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
<th>Scenario 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous Law - Bonds Issued Prior to Dec. 31, 2020</td>
<td>Current Law - Bonds Issued After Dec. 31, 2020 - 4% Floor</td>
<td>5% MIHTC, With Taxable Debt Financing</td>
<td>5% MIHTC + ELI Basis Boost</td>
<td>4% LIHTC + 2% MIHTC + PABs</td>
<td>4% LIHTC + 2% MIHTC + PABs + ELI Basis Boost</td>
</tr>
<tr>
<td>w/o Basis Boost</td>
<td>w/o Basis Boost</td>
<td>w/o Basis Boost</td>
<td>w/ Basis Boost</td>
<td>w/ Basis Boost</td>
<td>w/ Basis Boost</td>
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<tr>
<td>Debt</td>
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</tr>
<tr>
<td>Permanent Financing</td>
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<td>$7,894^2</td>
<td>$7,894^2</td>
<td>$16,276^8</td>
<td>$12,625^8</td>
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<tr>
<td>Soft Loan Needed</td>
<td>$18,908</td>
<td>$17,135</td>
<td>$16,421</td>
<td>$342</td>
<td>$11,124</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Credit Equity</td>
<td>$8,798</td>
<td>$10,571</td>
<td>$13,685</td>
<td>$22,808</td>
<td>$23,318</td>
</tr>
<tr>
<td>Financial Feasibility Adj.</td>
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<td>($3,484)</td>
<td>($343)</td>
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### Newark, NJ

<table>
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<th>Sources (Thousands)</th>
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<th>Scenario 2</th>
<th>Scenario 3</th>
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<tr>
<td>Previous Law - Bonds Issued Prior to Dec. 31, 2020</td>
<td>Current Law - Bonds Issued After Dec. 31, 2020 - 4% Floor</td>
<td>5% MIHTC, With Taxable Debt Financing</td>
<td>5% MIHTC + ELI Basis Boost</td>
<td>4% LIHTC + 2% MIHTC + PABs</td>
<td>4% LIHTC + 2% MIHTC + PABs + ELI Basis Boost</td>
<td></td>
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</tr>
<tr>
<td>w/o Basis Boost</td>
<td>w/o Basis Boost</td>
<td>w/o Basis Boost</td>
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<td>w/ Basis Boost</td>
<td>w/ Basis Boost</td>
<td>w/ Basis Boost</td>
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</tr>
<tr>
<td>Debt</td>
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</tr>
<tr>
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### Portland, OR

<table>
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<tr>
<th>Market</th>
<th>Sources (Thousands)</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
<th>Scenario 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous Law - Bonds Issued Prior to Dec. 31, 2020</td>
<td>Current Law - Bonds Issued After Dec. 31, 2020 - 4% Floor</td>
<td>5% MIHTC, With Taxable Debt Financing</td>
<td>5% MIHTC + ELI Basis Boost</td>
<td>4% LIHTC + 2% MIHTC + PABs</td>
<td>4% LIHTC + 2% MIHTC + PABs + ELI Basis Boost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>w/o Basis Boost</td>
<td>w/o Basis Boost</td>
<td>w/o Basis Boost</td>
<td>w/ Basis Boost</td>
<td>w/ Basis Boost</td>
<td>w/ Basis Boost</td>
<td>w/ Basis Boost</td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent Financing</td>
<td>$7,894</td>
<td>$7,894</td>
<td>$7,894</td>
<td>$16,276</td>
<td>$12,625</td>
<td></td>
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</tr>
<tr>
<td>Soft Loan Needed</td>
<td>$18,908</td>
<td>$17,135</td>
<td>$16,421</td>
<td>$342</td>
<td>$11,124</td>
<td></td>
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<tr>
<td>Equity</td>
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</tr>
<tr>
<td>Tax Credit Equity</td>
<td>$8,798</td>
<td>$10,571</td>
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<tr>
<td>Financial Feasibility Adj.</td>
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<td>($3,484)</td>
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<td>Total Sources</td>
<td>$35,600</td>
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</tbody>
</table>

### Market Data:

- Newark, NJ: Year - 2020; State - New Jersey; County - Essex County; MSA - Newark, NJ HUD Metro FMR Area
- Portland, OR: Year - 2020; State - Oregon; County - Multnomah County; MSA - Portland-Vancouver-Hillsboro, OR-WA MSA

### Notes:

- $34,800; #60% - $31,800
- #60% - $1,190;
- #30% - $715; Achievable two-bedroom market rent - $1,700
- Utility Allowance - $290
- A survey of 6 market rate properties was conducted to calculated achievable market rents in MSA.

Source: Novogradac
New York is the only metro area where the use of a MIHTC does not entirely negate the need for soft financing, though the gap financing needed ranges from a high of 42.9% when a 2% MIHTC is used in conjunction with a 4% LIHTC, PABs and ELI or locational basis boosts, to less than 10% when a 5% MIHTC is used with a 30% locational basis boost.

<table>
<thead>
<tr>
<th>Market</th>
<th>Sources (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Scenario 1</td>
</tr>
<tr>
<td></td>
<td>Previous Law - Bonds Issued Prior to Dec. 31, 2020</td>
</tr>
<tr>
<td>Debt</td>
<td>w/o Basis Boost</td>
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<tr>
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<td>Permanent Financing</td>
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<tr>
<td></td>
<td>Soft Loan Needed</td>
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<tr>
<td>Equity</td>
<td>Tax Credit Equity</td>
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<td>Financial Feasibility Adj.</td>
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<tr>
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</tbody>
</table>

Market Data: Year - 2020; State - New York; County - New York County; MSA - Newark, NY HUD Metro FMR Area
Four-Person AMI: @80% - $90,960; @60% - $68,220; @30% - $34,110
Two-Bedroom Rent: @80% - $2,048; @60% - $1,536; @30% - $768; Achievable two-bedroom market rent - $2,300
Utility Allowance - $196
* A survey of 6 market rate properties was conducted to calculated achievable market rents in MSA.

Source: Novogradac
Conclusion

The capital analysis regarding properties with PAB financing assumed that there was adequate PAB cap available to meet demand. California, New York, Massachusetts, Washington and some other states use of all of their PAB cap under current law, thus to be able to increase affordable rental housing production and preservation using PABs and MIHTC, there would need to be a change to current law to increase the availability of PAB cap to be able to take advantage of the proposed 2% MIHTC in those cap-constrained states. Oregon is expected to use all of its PAB cap by the end of the year, while New Jersey, Ohio, Idaho and Iowa still have unused PAB cap available.

The Moving Forward Act (H.R. 2), the comprehensive infrastructure financing legislation passed by the House in the 116th Congress, put forth numerous housing provisions, including a proposal to lower the current law PAB financed-by threshold from 50% to 25% for two years, which could double the amount of LIHTC equity available if all of the “freed” PAB cap were used for rental housing and there was sufficient soft financing available. Updated Novogradac analysis in 2021 commissioned by the National Coalition of State Housing Authorities, found that a 25% threshold translates to nearly $93.3 billion in “freed” bond cap and means nearly 1.5 million rental homes could be created or preserved over 2022-31. While the reduction in PAB debt would in some cases need to be replaced by taxable debt, which would carry slightly more interest and thus reduce net operating income and supportable debt, such a reduction under current market interest rates would generally still be nominal and generally not endanger the possibility of financing properties with debt and LIHTC equity only. This provision of H.R. 2 garnered considerable support, with 103 bipartisan members of the House signing a letter to leadership expressing their support. Other PAB provisions proposed by H.R. 2 also included a 10% increase in PAB cap.

Novogradac’s analysis suggests the enactment of a MIHTC could help address the severe shortage of affordable rental housing and as such would also be a valuable tool in economic recovery efforts. Senate Finance Committee Chairman Ron Wyden introduced S. 3365, the Middle Income Housing Tax Credit in the 115th Congress, and he is expected to reintroduce the proposal in a comprehensive housing bill this year. While geared to incentivizing the construction of affordable housing for families earning slightly more than the LIHTC income limits, the bill also includes protections for low-income affordable housing. A state’s unused MIHTC allocation after one year would get added to the state’s existing LIHTC allocation. If still unused after a second year, the state’s MIHTC allocation would go back to the national LIHTC allocation pool. The bill also contains a Sense of the Senate resolution that Congress pass the Affordable Housing Credit Improvement Act. The bill is expected to be reintroduced later this year.