TAX CREDITS FOR HOUSING:
The Experience of the New Hampshire Community Development Finance Authority Investment Incentive Program

by

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TAX CREDITS FOR HOUSING: THE EXPERIENCE OF THE NEW HAMPSHIRE COMMUNITY DEVELOPMENT FINANCE AUTHORITY INVESTMENT INCENTIVE PROGRAM

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ABSTRACT

From 1992-1994, the New Hampshire Community Development Finance Authority (NHCDFA) operated an Investment Incentive Program, offering state tax credits for donations of cash and property in support of community development activities. Activities undertaken through the program focused on housing, economic development, job creation, and nonprofit organization capacity-building. Over half of the projects undertaken through the program were housing-related, and half of those projects aimed to create or preserve the supply of affordable rental housing.

The need for affordable rental housing continues to grow throughout the United States. Federal funding in support of developing affordable housing is dominated by the Low Income Housing Tax Credit (LIHTC). The continuation of the LIHTC, however, is not guaranteed, and it is unlikely the federal government will initiate direct subsidies for affordable housing development. Should the LIHTC be terminated, more states may have to initiate affordable housing production programs.

This thesis examines the NHCDFA program and its experience with producing affordable rental housing. It includes an analysis of program participants, project financial structures, and program goals and outcomes within the NHCDFA program. Additional research compares the NHCDFA program with similar components of New Hampshire's LIHTC projects. To give context to the use of a tax credit to raise project equity, the thesis also includes an examination of past and current affordable housing need and production strategies in the United States.

The examination of the NHCDFA program found that in addition to affordable housing development, the program offered relatively young nonprofit housing organizations the chance to start and expand their property portfolios, increasing their organizational capacity. By offering federal tax credits, LIHTC project sponsors had access to investors from outside New Hampshire, while the NHCDFA program project sponsors focused on donations from in-state sources. Focusing on in-state resources provided benefits to New Hampshire banks and businesses, nonprofit housing organizations, and low income households, but was costly to the state's general revenues. These findings emphasize the need for states to carefully consider both costs and goals before initiating a similar tax credit program in support of affordable housing development.

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CHAPTER 1

INTRODUCTION

As federal funding continues to decline for housing programs aimed at developing affordable housing, some states have formulated their own strategies and policies to address the housing needs of the low income populations of their state. One strategy involves employing financial incentives to attract private equity capital and spur investment in housing and community economic development programs. One of the tools available for this strategy is the tax credit. Tax credits allow a one for one dollar reduction in an investor’s tax liability, thereby lowering the after-tax effective cost of investing in programs designed for social good. This raises the rates of return for such investment through tax savings.

The state of New Hampshire enacted an investment incentive tax credit program in 1992. This tax credit program, administered by the New Hampshire Community Development Finance Authority (NHCDFA), was designed to help the NHCDFA fulfill its mission to work with local, community-based organizations to foster and encourage affordable housing and economic development projects in distressed areas of the state. Projects undertaken through the tax credit program promoted housing, economic development, job creation, and organizational capacity-building. Through the tax credit program, businesses could donate property or cash, specifying the use of the donation for a proposed community development project. In return, the business would receive tax credits equal to 75% of the assessed value of the property or the amount of the cash donation. These tax credits would be applied against state business taxes. The program proved to be extremely popular, but was deemed too costly to the state of New Hampshire by way of reduced tax revenues. Thus, the NHCDFA’s ability to authorize
tax credits was revoked and ended on June 30, 1994.

In looking at the initial outcomes of the NHCDFA tax credit program, it is clear that the bulk of completed projects were housing-related. Most of the housing involved the rehabilitation of existing building structures. These were mostly foreclosed properties owned by banks and through the tax credit program were donated to the NHCDFA to sell to community development corporations (CDCs) or nonprofit housing organizations (NHOs) to rehabilitate and manage as affordable rental housing or to sell to low or moderate income families. To initiate the tax credit program process, the CDC or NHO would first locate a property in the neighborhood they service that was known to be nonperforming. The CDC or NHO would then approach the bank or other owner of the property and propose the donation of the property for tax credits through the NHCDFA tax credit program. An additional incentive to the banks was that it could receive points for the Community Reinvestment Act (CRA).

Many of the issues that arise with this state tax credit program parallel the issues brought up concerning the federal Low Income Housing Tax Credit (LIHTC). Since its enactment in the Tax Reform Act of 1986, the LIHTC has emerged as the primary method for financing affordable housing. Low income housing tax credits are still being allocated, despite an originally planned short-term of availability and regular talk of sunsetting the program. Its proponents believe that given the lack of success through the years of other federal supply-side programs to promote affordable housing, tax incentives and tax credits are the only modes left. When and if the LIHTC gets sunsetted, a state tax credit program may become that much more important.
Scope of Study

This thesis examines the experience of producing affordable rental housing through the NHCDFA tax credit program. The research questions that guided the thesis were:

- How effective and efficient was the NHCDFA tax credit program in developing affordable rental housing?
- How does the state NHCDFA tax credit program compare to the federally-sponsored LIHTC program administered in New Hampshire?
- What elements of the NHCDFA tax credit program make it replicable in other states?

Developing affordable housing was not the sole goal of the NHCDFA tax credit program, so the effectiveness of the NHCDFA program was gauged in terms other than the total housing units completed. The factors examined in the research related to program processes, financial structure of the proposed projects, and overall program goals and outcomes. Program processes included the rules and workings of the tax credit program and how they affected the participants in the program, particularly the projects’ sponsoring organizations, the donors that supplied property and cash equity for the projects, and the program’s administering agency, the NHCDFA. In utilizing a tax credit, New Hampshire aimed to improve the financing capabilities of the state’s nonprofit organizations. The effectiveness of the program was determined by how well the program supported the development of affordable rental housing by nonprofit housing organizations. The program’s efficiency was studied in terms of ease of use, particularly for the nonprofits.

To help give some context to the experience and outcomes of affordable rental housing development through the NHCDFA program, some comparisons were made with the LIHTC program administered in New Hampshire. The LIHTC is the dominant
federally-sponsored funding mechanism for affordable rental housing in place today. New Hampshire's LIHTC allocation of low income housing tax credits is administered by the New Hampshire Housing Finance Agency (NHHFA). As with the examination of the NHCDFA program, the LIHTC elements studied and compared with the NHCDFA program related to program processes, financial structure of the proposed projects, and overall program goals and outcomes. The programs differed in scope and in size, but both used a tax credit to attract equity and increase housing opportunities for low income households. A broad analysis of program goals and outcomes sought to gauge the rate of program completions and how well both projects served the need for affordable housing in New Hampshire.

Should the LIHTC be eliminated, other states may be able to support low income housing development through a program similar to the NHCDFA tax credit program. The issue of replicability of this program in other states was examined in terms of factors that seemed unique to New Hampshire, especially during the time period the program was in operation, and factors and other issues that are likely to be common concerns with other states. Factors unique to New Hampshire while the program was in operation included the local economic conditions and the recession. Some common factors other states would need to consider are the impacts of a tax credit on state revenues, the access to cash and property donations, and overall program design.

Methodology

Data used for this thesis were collected through 1) a literature review of issues relevant to affordable housing, 2) an examination of NHCDFA program project files, and 3) interviews and discussions with NHCDFA and NHHFA program staff, project
sponsors, and developers. Data and lessons learned from a recent study\textsuperscript{1} of the NHCDFA tax credit program also served to provide background and insight into the program. Data on the sources and uses of funds from NHCDFA program files were reconciled to understand full development costs. Limited data was available on the LIHTC projects examined here. Much of the financial data was considered confidential. Data was sought on projects awarded low income housing tax credits during the 1992-1994 allocation years, the same time period the NHCDFA program was operational.

This thesis is presented in five chapters.

Chapter 2 provides background information and some context for the analysis. It includes an assessment of the importance of housing and the short-comings of numerous programs designed to assure safe and affordable housing for all Americans. This chapter also includes background information on New Hampshire, the NHCDFA, and the investment incentive program.

Chapter 3 examines the experiences of the NHCDFA tax credit program. This chapter includes the main points of analysis for the thesis.

Chapter 4 makes comparisons of the NHCDFA program and what is known about the LIHTC in New Hampshire.

Chapter 5 summarizes conclusions from the examination of the NHCDFA tax credit program. This chapter also includes some conclusions about program replication.

\textsuperscript{1} This study, \textit{An Evaluation of the Effectiveness of the New Hampshire Community Development Finance Authority State Tax Credit Program}, was completed in the fall of 1995.
CHAPTER 2

BACKGROUND AND CONTEXT

Every housing and community development act passed by the U.S. Congress has had at its foundation the goal to provide decent housing and living environments for all Americans. Yet, housing is not an entitlement in the U.S. Housing is a product subject to market and other economic factors like any other good available to consumers. As with other goods, costs for housing can be out of reach of those with low or moderate income levels.

The need for affordable housing—approaching housing affordable to low and moderate income populations—has always been a common concern in the U.S. The problem is multi-faceted, but closely associated with two national economic trends. First, there is the persistence of poverty that effectively prices households out of the market for decent housing. The second issue is the loss of affordable housing stock. These problems together undermine the quality of the living environments of neighborhoods with lower income residents. If lower income households are unable to provide for housing maintenance and upkeep costs, it follows that their properties could fall into disrepair and deteriorate to the point of being structurally uninhabitable.

Without subsidies or other specialized financing tools, the costs associated with rehabilitation or new construction cannot be covered by rents affordable to lower income populations.

The methods employed by governments to address the need for housing affordable to low income populations generally fall into two categories, namely demand-side or supply-side strategies. Demand-side strategies assist households to consume better quality housing, typically through rental assistance programs. Supply-side
strategies focus on increasing or maintaining the available stock of affordable units. There has been an on-going debate as to which type of strategy would best address the need for affordable housing, as illustrated by the numerous federal housing programs conceived and undertaken throughout the years. While the debate is usually focused on either demand or supply programs, in reality, a mix of both program types are needed, more of one type or the other depending on the specific social and economic conditions for a particular locality.

Because federal support has not been sufficient enough to assure adequate housing for all Americans, a number of states and other localities have implemented housing assistance programs. Philosophical and budgetary problems within the federal government have continued to lessen support for affordable housing programs, leaving more states to initiate their own programs to fill the voids left by dwindling federal funding. The New Hampshire Community Development Finance Authority (NHCDFA) Investment Incentive Tax Credit was one such initiative.

To help set the context for this study, following is a discussion on the ongoing need for affordable housing, various housing assistance strategies, and background information on the NHCDFA Tax Credit Program. While the focus of this study is on the experience of a state-run program, much of this discussion is based on analysis done on the array of the more well-documented housing assistance programs formulated at the federal level and implemented locally.

**Housing as a Consumer Good**

Housing plays a unique role in society. Everyone (with the exception of the homeless) has a place of residence, and housing is one of what are considered the three basic human needs - food, clothing, and shelter. Housing, however, has become more
than just shelter. Where one lives defines a person as a citizen of a state or city, a
member of a neighborhood, and a part of a community. Positive or not, where one lives
and is housed gives others impressions of a person’s background and economic status,
depending on the reputation and known characteristics of a particular locality.
Households and families are largely defined by their housing and where they live. As
one’s ideas and values are influenced by experiences within a neighborhood and
community, so to are these experiences brought into a home to shape the development of
a household and family.

Influencing factors work both ways, so while housing gives a place component to
household and family living, the housing developed and maintained by its residents help
define a neighborhood and community. Housing is part of the physical characteristics of
a neighborhood. Housing of good quality and well-maintained can be a source of pride
for a neighborhood and its residents. Costs associated with building and maintenance,
however, are sometimes too high to be covered by the available rental income or from a
homeowner’s income once mortgage payments are made. The inevitable decline and
deterioration of the housing structures that cannot be properly maintained pose
numerous problems to a neighborhood, including safety concerns for the children who
play in and around these structures.

Thus, housing is unique for both its role in society and family development and
the costs associated in attaining and maintaining the physical structures. Housing has
unique characteristics as a consumer good. Housing is real estate, the collection of
buildings classified as residential, comprising nearly 70% of the value of all real estate in
the U.S.\(^2\) As real estate, housing is a durable good whose production and price are
determined by current trends in the marketplace. Economic trends that affect the costs

of housing can be at the national level, but the most influential factors are more within the local building and employment markets. While market characteristics differ with every locality, changes in the market affect households similarly with regard to housing. For homeowners and renters alike, a decrease in income will lastly affect the ability to be housed. The household will first forego or consume less of goods other than housing. The reasons are partly due to the nature of housing. In the short-term, one cannot save on housing costs by simply using less housing and living in fewer rooms. Housing payments are both fixed by contract and a priority in the household budget.

**Affordable Housing**

While housing is a priority in the typical household budget, more and more households are unable or find it difficult to meet the costs of adequate housing and their basic non-housing needs. In 1993, nearly 70% of the 13.4 million low income renter households in the U.S. did not receive any kind of housing assistance payments. Nearly 65% of these unsubsidized renters were either paying over 50% of their income for gross rent or living in inadequate housing. For these households, there continues to be the need for affordable housing.

Affordable housing can refer to housing either for ownership or for rental purposes. Homeownership has become part of the "American Dream," but the increasing costs of homeownership have made it out of reach for low and moderate income populations. Although monthly mortgage payments can be equal to or even lower than monthly rent for a structurally comparable unit, lower income households have a decreased ability to put money aside for a downpayment on a residential

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3 *The State of the Nation's Housing 1995*, Harvard University Joint Center for Housing Studies, Cambridge, MA, 1995. Tabulations were based on the 1993 American Housing Survey. "Inadequate" housing is "defined in terms of presence or absence of plumbing fixtures, heating equipment, and other mechanical systems, as well as information on the repair and upkeep of properties."
mortgage. While other factors, such as discrimination, may prevent low income populations from homeownership, the fact remains that from 1970-1994, renter households have increasingly lower incomes, while the average income of owner households has risen. Exhibit 2-1 shows the trend in household income among renters and homeowners. If more lower income households are finding themselves in rental housing, it follows that the need for the development of affordable housing is seen primarily in the rental market.

There exists no standard definition of affordable housing, other than adequate housing that can be supported by residents with low incomes. The federal definitions
for low income have varied through the years, from 50-80% of an area’s median household income. Since the 1980s, many program’s have used 60% of median area income to define low income. Households have also been expected to expend from 25-30% of their income for housing. It is not clear how the 30% criteria was first determined, but the 25% rule stems from the days when manufacturing mills offered housing to employees in exchange for one week’s wages per month. Keeping housing costs to no more than 30% of household income is especially difficult for lower income households. Looking at data from the 1989 American Housing Survey, 58% of the estimated 20 million low income renters paid 30% or more of their household income for housing.\(^4\) Among all renter households, gross rents were 28.2% of household income in 1989.\(^5\)

Up until early in this century, households increased their ability to afford housing either by moving into smaller spaces or more crowded conditions, or by living in housing with the minimal amount of amenities deemed necessary by the household. This system made economic sense, in that the housing structure could be maintained by the rental payments made by the tenants. By minimizing the amount or the quality of housing to make it affordable, there were increased chances that the housing posed some health or safety problems. Such dangers were a threat not only to the housing residents, but to the neighborhood and to others who came in contact with the area. Localities and eventually the federal government developed health standards and building safety codes that defined habitable housing.

By setting minimal standards for housing structures and livability, the safety codes also set some minimal costs entailed for developing housing. Development and


maintenance costs were in turn passed on to the housing’s tenants. Because these minimal costs were higher than previous expenditures to development housing, the lower income households were most at risk to suffer high rent burdens. The lower the household income and the higher the area’s housing costs, the more acute the problem.

**Strategies for Affordable Housing**

The inability of the housing market to provide adequate housing for all has been addressed through a number of programs and by policies set forth by local, state, and federal government agencies. Strategies promoting affordable rental housing are sometimes indirect, such as assistance for first-time homebuyers, especially among low-income families, which in turn frees up available rental housing. Most strategies take a more direct approach to increasing access to affordable housing. One such program is the public housing program. Other approaches rely in some way on the private market. These approaches are typically classified as either demand-side or supply-side strategies.

Housing advocates and policy makers have debated the advantages and disadvantages of demand-side versus supply-side strategies for years. Each strategy addresses distinct financial barriers to accessing affordable housing, but following one strategy alone is not likely to solve the affordable housing problems in all communities. Rather, some combination of both demand-side and supply-side strategies can better deal with a specific community’s affordable housing needs.

**Demand-Side Strategies**

Demand-side strategies to promote affordable housing focus on increasing the household’s ability to consume housing. Typical program components include a rental
subsidy that would allow a low income household to purchase housing that exists in the private rental market. A currently available example of such a program is the Section 8 Rental Voucher and Certificate Program. This tenant-based assistance strategy is administered by public housing authorities (PHAs) or nonprofit agencies under contracts with the U.S. Department of Housing and Urban Development (HUD). Once enrolled in the program, tenants search for housing in the private market to be approved for the Section 8 program. In the Certificate Program, the housing assistance payment is the difference between the unit’s gross rent (contract rent plus utilities) and 30 percent of the tenant’s income, with the unit’s gross rent restricted to not exceed the area’s Fair Market Rent (FMR) schedule. In the Voucher Program, the housing assistance payment is similarly calculated, except that gross rent can exceed the area’s Payment Standard schedule. The excess is paid by the tenant.

Program enrollees can be recertified for the Section 8 Program annually. In 1990, some 1.4 million units were involved in the Section 8 Rental Voucher and Certificate Program. The program is less expensive than providing the same number of newly constructed units of housing, but waiting lists for the program are very long, with some waiting years before enrolling into the program. Thus, the need for housing is still not met by this program alone. Even if enough vouchers and certificates were available to clear all of the waiting lists, it is questionable that enough adequate units exist to be accepted by the Section 8 Program.

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Approval of a housing unit for the Section 8 Rental Voucher and Certificate Program includes an inspection that the unit meet certain housing quality standards and household occupancy requirements, that the landlord agrees to participate in the program, and that the unit rent is allowable under local Fair Market Rent (FMR) and Payment Standard schedules. FMR schedules are determined by HUD; Payment Standard schedules are determined by local PHAs.
Supply-Side Strategies

Supply-side strategies to promote the availability of affordable housing in the private market include subsidies for the production or maintenance of affordable housing stock. Subsidies can be in the form of a capital grant for housing production, below-market interest loans, or project-based rental assistance. Acceptance of subsidies often requires developers to keep housing affordable for a specified number of years. Without the subsidies, it is unlikely the rent afforded by the tenants could cover the capital and annual operating costs. The expiration of the required affordability period has brought about additional concerns regarding the loss of affordable housing stock.

New incentives have been put in place to keep affordability. The federally-sponsored project-based rental assistance program is also a Section 8 program. With this program, the subsidy is attached to the unit and not the low income tenant.

The need for affordable housing production stems from the continued loss of affordable housing stock. Exhibit 2-2 shows the amount of subsidized and unsubsidized affordable rental housing units by region. Since 1974, there have been marked losses in unsubsidized affordable rental units. These losses are most pronounced in the Northeast. Subsidized units have helped to offset these losses, but with the exception of the Midwest, the number of affordable rental units in 1993 was below 1974 levels.
Direct capital grants from the federal government for the production of affordable housing is a mechanism of the past. Construction costs are too high to be politically feasible, and formerly available production programs were riddled with scandal. The dominant production program in place today is the Low Income Housing Tax Credit (LIHTC).

*Use of the Tax Code for Affordable Housing Production*

To get around direct capital grants, the federal government has turned to modifications to the tax code to provide incentives for private equity investment in affordable housing production. Although more politically palatable, these tax incentives have been found costly and inefficient. It is costly in terms of the value of the tax...
subsidies offered to investors, and inefficient because the costs involved with setting up real estate partnership offerings can greatly reduce the equity available for the development project. Because of the popularity of the tax code incentives among developers, some question that the incentives are overly generous, while others see such behavior as evident of the great need for affordable housing.

Investment in low income housing is typically done through limited partnerships. The more recent tax code provisions that affect low income housing include:

- *Economic Recovery Tax Act (1981).* In this act, the Accelerated Cost Recovery System (ACRS) was adopted. Low income housing was classified as a 15-year property, with depreciation calculated based on a 200 percent declining-balance. This accelerated depreciation generated tax savings that attracted private investment to affordable housing projects. Certain rehabilitation costs could be amortized over five years, and investors were exempt from amortizing construction-period taxes and interest, which were tax deductible. As with other residential properties, at sale, investors could recapture unused depreciation as ordinary income with potential capital gains treatment.

- *Tax Reform Act (1986).* The preferential treatment of real estate in general as a tax shelter was lost, namely all capital gains were to be treated as ordinary income. Also, the depreciation period for residential buildings was extended to 27.5 years. A last minute inclusion into this act was the low-income housing tax credit to address the loss of investment incentives for affordable housing. The LIHTC allowed a generous tax credit for investment in low-income housing. The tax credits could be marketed to passive investors.

**Low Income Housing Tax Credit**

The LIHTC program has two components. One is the incentive of tax credits that offer a dollar for dollar reduction in federal tax liability for the investment of developing low income housing. The second is the main objective of the program - to preserve or create sound, safe, and sanitary housing affordable to low income households. Developers may acquire existing buildings for rehabilitation or undertake new construction and be eligible for tax credits. Low income housing tax credits are allocated to states based on population, at a rate of $1.25 per capita. Each state is
responsible for determining a qualified allocation plan for the tax credits, typically assigning administration of the state's allocation to the state housing finance agency.

The tax credits work to support housing by offering incentives that help raise needed equity. The higher the equity raised to lower capital costs, the less the debt that must be borrowed. Lower debt levels reduced annual project costs and allowed lower rents. Tax credits are sold to investors, with the proceeds made available to the specified development project. The process of selling or syndicating the tax credits has come under much criticism. The legal, marketing, and accounting costs of syndication lowers the amount of the proceeds eventually delivered to the project. Research on the issue of tax credit cost efficiency estimate that 25-30% of the amounts raised with the tax credits go toward syndication costs. Based on this estimate, only half of what the government invests through tax credits are actually delivered to the development project itself. These findings form the basis for criticisms that the LIHTC should be greatly revised if not sunset altogether.

Nonprofit housing organizations typically have as part of their mission the development of affordable housing. Because of a nonprofit's tax exempt status, only for profit entities can take advantage of using the tax credits. For this reason, many tax credit development projects involve a partnership effort between nonprofit and for profit groups. This type of partnership is not a requirement of the LIHTC program.

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8 To illustrate, the following excerpt is taken from James E. Wallace's article, "Financing Affordable Housing in the United States," Housing Policy Debate, Volume 6, Issue 4:

Suppose a project has a qualifying basis of $55,606 per unit, and the allowable tax credit percentage is 9 percent of qualifying basis. This will generate an annual tax credit of $5,000 for 10 years, which has a present value of $24,875 to an investor requiring a 16 percent return. If syndication costs amount to 25 percent of the amount raised, this leaves $18,656, or roughly 30 percent of the cost of the project, including amounts for builder and developer profits and various reserve accounts that must be established to ensure the continued operation of the project. At an applicable federal rate of 5.2 percent, a 10-year stream of $5,000 tax credits has a present value to the federal government of $38,925. The process thus has delivered to the project only 48 percent of the cost to the government of the tax credit mechanism (18,656/38,925 = 0.48).
Most limited partnerships that utilize the low income housing tax credits are comprised of for profit entities only. Investors in LIHTC program projects include both individual and corporate investors.

There are a few options used in calculating the tax credit available for a LIHTC project. New Hampshire’s 1996 Qualified Allocation Plan for the LIHTC illustrates that tax credit awards are approximated as:

- 4% of the qualified basis for the cost of acquisition of existing buildings (provided that rehabilitation costs equal the greater of an average of $3,000 per unit or 10% of the depreciable basis of the building); or

- 4% of the qualified basis for the cost of construction of new building or rehabilitation of an existing building financed with federal subsidies; or

- 9% of the qualified basis for the cost of construction of new building or rehabilitation of an existing building financed without federal subsidies.

Using these guidelines, the annual tax credit awarded can be used by a recipient for a 10-year period. Typically, the owner sells or syndicates this stream of tax credits to private investors for the upfront capital needed to develop the affordable housing project. Investors pay a present value based on their required rate of return.

Housing developed with low income housing tax credits must be kept affordable for 30 years, although provisions allow owners to sell the properties after 15 years. To be considered affordable in the LIHTC program, 20% of the building’s units should be available to tenants whose income is below 50% of median area income, or else 40% of the building’s units should be available to tenants whose income is below 60% of median area income.

This summarizes the basic provisions of the LIHTC program. There are a myriad other program terms and conditions to which the participants and projects in the LIHTC are subject. Those who have been able to utilize the program have developed over 710,000 affordable rental units using some $3.3 billion in low income housing tax credits
allocated between 1987-1994. The LIHTC program has become the dominant capital subsidy mechanism in affordable housing development, although it is not the only mechanism available. States have initiated programs to support the development of affordable housing. Some of these programs even utilize the financial mechanism of the tax credit.

New Hampshire and the NHC DFA Investment Incentive Program

One such state program was the New Hampshire Community Development Finance Authority Investment Incentive Program. Through this tax credit program, the NHC DFA was finally able to meet its legislative mandate to work with local community-based organizations to foster and encourage affordable housing and economic development projects in distressed areas of the state.

New Hampshire benefited tremendously from the economic boom of the 1980s but experienced difficulties and suffered from the recession of the early 1990s. As with much of the northeast, the growth industries were in the high value manufacturing and high technology areas. Later, a construction bust and banking industry troubles led to a downturn in New Hampshire, where between 1989 and 1991 about one in every ten jobs was eliminated. By examining the effects of industries closing or moving from New Hampshire, the state Legislature came to realize that traditional free-market mechanisms would not effectively deal with the state’s areas of underemployment and inadequate housing. With their conservative nature, the Legislature was determined to find a way to stimulate private investment to develop or redevelop these areas.

The NHC DFA was originally established by the New Hampshire Legislature in 1984 through legislative act RSA 162-L. The mission of the NHC DFA was to work with

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local community-based organizations to foster and encourage affordable housing and economic development projects in distressed areas of the state. With no funding appropriations, the NHCDFA initially was unable to carry out its legislative mandate. An attempt to fund the NHCDFA with venture capital and NHCDFA stock required investors to buy NHCDFA stock and make a matching donation, in the same amount that was paid for the stock, to the NHCDFA. Investors were awarded state tax credits in an amount that was 75% of the donation. This attempt to raise funds for the NHCDFA failed. The economic conditions caused by the recession accentuated the need for the NHCDFA.

Between July 1, 1992, and June 30, 1994, the NHCDFA was granted authority by the Legislature to issue state tax credits for donations that resulted in affordable housing or employment opportunities for low and moderate income residents. Purchase of NHCDFA stock was no longer required. Through fees and other interest generated by the tax credit program, the NHCDFA funded its programs and operations. At that time, the tax credit program was the only vehicle through which the NHCDFA received funding.

Banks and nonprofit housing corporations were the first groups to take advantage of the NHCDFA tax credit program. The type of acceptable donation was not specified in the legislation, and banks found they could donate a foreclosed property to the NHCDFA. The NHCDFA would sell the property to a nonprofit housing organization for 15% of the property’s value. The nonprofit housing organization would agree to keep the property affordable for low and moderate income tenants. Donors (the banks) could apply 75% of the value of their donation against state business taxes up to a limit of $200,000 in credits per year for a maximum total of $1 million over a five year period. Because the majority of initial projects were housing-related, the housing projects are substantially completed.

Donations could also be in the form of cash. Similarly, the CDC would organize a pool of donors for a specific housing or economic development project, and the CDC
would apply to the NHCDFA for tax credits to obtain the cash donation. If accepted, the
donors could receive tax credits worth 75% of the donation, the CDC would receive
funding totaling 80% of the donation, and the NHCDFA would receive a fee worth 20% of
the donation. Tax credits were awarded on a first come, first serve basis. The fees
collected by the NHCDFA were used to award capacity-building grants, to provide loans,
and to pay administrative expenses.

A diagram of the tax credit program’s donation and transaction process is shown in
Exhibit 2-3.

Use of the NHCDFA tax credit program exceeded expectations. Nearly $25 million
in tax credits have or will be awarded, including $5 million for a variety of housing
projects. To limit the effect of the tax credit program on the state budget, the Legislature
has eliminated provisions for the NHCDFA tax credits. The NHCDFA could issue no new
tax credits after June 30, 1994. Allocations of tax credits approved by the NHCDFA prior
to June 30, 1994, were capped at $2 million a year through June 30, 2002, and will be
awarded based on the donation date of receipt.

The tax credit program was established to promote housing and economic
development for New Hampshire’s low and moderate income residents. During the period
in which the tax credit granting authority was active, 85 projects were allotted tax credits.
Over 40 of these projects were housing-related, providing both rental and ownership
opportunities in more than 20 communities. While most projects were housing only, some
projects combined housing and economic development by rehabbing buildings with first
floor retail space and designing the other floors as residential units. As is evident by the
amount of tax credits awarded, housing projects constitute only about 20% of all tax credit
projects. Most of the economic development projects have not been completed, due in part
to economic development projects primarily being initiated later in the tax credit program.
Exhibit 2-3
New Hampshire Community Development Finance Authority Investment Incentive Program
Donation and Transaction Process

Process typically initiated by CDC/NHO:
- locates property, approaches property owner
- organizes cash donors
-> approaches NHCDFA about participating in tax credit program.

NHCDFA approves projects and awards tax credits on a first come, first serve basis.

\[
\begin{array}{c}
\text{Bank/owner of nonperforming property} \\
\text{Donates property assessed at $X} \\
\text{Awards tax credits for 75% of $X} \\
\end{array}
\]

\[
\begin{array}{c}
\text{Bank/corporation/other entity} \\
\text{Donates cash of $Y (must specify project use)} \\
\text{Awards tax credits for 75% of $Y} \\
\end{array}
\]

\[
\begin{array}{c}
\text{Bank/corporation/other entity} \\
\text{Awards tax credits for 75% of $Z} \\
\end{array}
\]

\[
\begin{array}{c}
\text{Donates matching funds of $Z} \\
\text{CDC/nonprofit housing organization} \\
\end{array}
\]

\[
\begin{array}{c}
\text{Passes through 80% of $Y} \\
\text{CDC/economic development corporation/developer} \\
\end{array}
\]

\[
\begin{array}{c}
\text{Economic development programs and/or develop/maintain affordable housing} \\
\text{Develop downtown revitalization projects/business-related programs/grants/job-related programs/affordable housing} \\
\end{array}
\]

\[
\begin{array}{c}
\text{NHCDFA} \\
\text{Receives 15% of $X} \\
\text{Covers administrative expenses} \\
\end{array}
\]

\[
\begin{array}{c}
\text{Sells property for 15% of $X} \\
\text{CDC/nonprofit housing organization} \\
\end{array}
\]

\[
\begin{array}{c}
\text{Buys property for 15% of $X} \\
\text{Family/household/neighborhood} \\
\end{array}
\]

\[
\begin{array}{c}
\text{Develop/maintain nonprofit affordable housing} \\
\text{Family/household/organization/neighborhood} \\
\end{array}
\]

\[
\begin{array}{c}
\text{Provides capacity-building grants and loans of $Z} \\
\text{CDC/economic development corporation/developer} \\
\end{array}
\]

\[
\begin{array}{c}
\text{CDC/nonprofit housing organization/economic development corporation} \\
\text{CDC/other agencies' clients and community} \\
\end{array}
\]
These projects are also very large, including downtown revitalization projects, which take longer to complete. Sunsetting the program did not speed the process either. Capping the allocations of tax credit awarded meant capping the yearly receipt of donations. Without the needed capital, the projects have been delayed. It is feared that donors will eventually decide to not participate in the program, leaving unclear the future of the projects originally planned under the tax credit program.

The structure of New Hampshire’s tax system was also instrumental in the cessation of the tax credit program. New Hampshire has no sales tax and collects no personal income tax other than for excessive interest and dividend income. The only other taxes collected by the New Hampshire Department of Revenue Administration are property taxes and other business-related taxes. Property taxes fund the New Hampshire public school system. The NHCDFA tax credits have been applied against the state business-related taxes. An analysis done by the New Hampshire Department of Revenue Administration on the revenue loss through the NHCDFA tax credit program showed that for every $1.00 donated, the business lowered their effective tax rate by receiving benefits worth $1.07. As with the LIHTC, critics of the NHCDFA tax credit saw the program as too costly, providing large benefits to businesses and big investors to provide a few units of housing. Critics went on to argue that if the government is serious about affordable housing and economic development, funding appropriations should be directed for these goals.
When the New Hampshire legislature created the New Hampshire Community Development Finance Authority, its main goals included providing assistance to areas of underemployment and inadequate housing throughout the state, given that private enterprise alone could not effectively meet these needs. Although housing was not the singular purpose of the tax credit program, housing development projects were the bulk of initial projects undertaken through the tax credit program, and once the NHCDFA's authority to issue tax credits was revoked, over half of all projects contained affordable housing as one component.

A variety of housing development projects were undertaken through the tax credit program, including affordable housing, healthcare facilities, and community loan funds in support of housing. This analysis reflects those projects whose sole development goal was to create affordable rental housing. This represents about half of the projects that included housing as one component. This subset of housing projects does not include any affordable homeownership properties, elderly developments, health facilities, nor any mixed-use development projects, namely those projects that developed housing in conjunction with commercial property development. Nor does it include any scattered site developments. Looking only at the state of rental housing through the NHCDFA program helped focus the analysis and control for variables in program implementation unique to other housing types. It also helped to form some basis for comparison to the federally-sponsored low-income housing tax credit program.
The affordable rental housing developed through the NHCDFA tax credit program can be categorized into three types of development: rehabilitation, acquisition, and new construction. Criteria for determining project type included:

- **Rehabilitation.** These projects included an existing site with built structures. The structures may or may not have already been in use for residential purposes. Some construction or other rehabilitation was needed to bring the building’s units up to code or some other sufficient level to attract renters. Although there was potential for a wide range of rehabilitation work amongst the projects, all the projects classified as rehabilitation required more than minor amounts of work. Rehabilitation costs averaged about $14,000 per unit.

- **Acquisition.** These projects also included an existing site with built structures already used for residential purposes. Most of these units had been renovated within the past year and needed no further construction or rehabilitation work. All or nearly all of the project funding went to acquisition of the property or payment of the NHCDFA program fee, which was often considered an acquisition cost by the project sponsors.

- **New Construction.** These projects required building new structures for residential purposes. From the project files, the conditions of the sites for the proposed housing, including whether there were existing structures, was unclear. For these new construction projects, the NHCDFA program was used to acquire cash donations which made up only a small part of the overall development budget.

Of the 22 projects selected for study, 15 were rehabilitation projects, 5 were acquisition, and 2 were new construction. Nearly all of the rehabilitation and acquisition projects utilized property donations through the tax credit program. Thus, NHCDFA’s main role in the projects was to expedite the acquisition of existing properties by local nonprofit housing organizations. Through the NHCDFA program, nonprofits acquired the properties at a significant discount of 15% of the properties appraised value.

The NHCDFA tax credit program’s accomplishments and outcomes are studied here through three components, namely program processes, project financial structure and overall project goals and outcomes.
Program Processes

To understand the NHCDFA’s program effectiveness in developing affordable rental housing requires an examination of the program participants and their motivations to use the program. There were three main sets of participants involved in the transfer of properties and cash in the NHCDFA program, namely the project sponsors, the donors of property and cash, and the NHCDFA. Other equally important participants included the state of New Hampshire’s Revenue Administration who honored the tax credits and the households who would eventually be the recipients of the available housing units.

Project Sponsors

Seven nonprofit housing organizations, all located primarily in the southern sections of New Hampshire, sponsored the 22 projects under study. Table 3-1 lists the project sponsors and their distribution of projects and units by project type. These housing organizations serve their local communities, and the housing projects undertaken through the NHCDFA were all located within the same counties in which their sponsors were located. Many of the organizations sponsored multiple projects through the NHCDFA program, indicating a preference for using the tax credit program to support an organization’s activities. Looking at other project involvement in the NHCDFA program, five of these project sponsors also participated in the capacity grant portion of the tax credit program, and one also sponsored an affordable homeownership project. While it may imply a lack of other sources of funding available to meet these nonprofits’ objectives, it is unlikely that these groups would use the tax credit program to the same degree had there not been some benefits in the program process as well as the resulting donations.
<table>
<thead>
<tr>
<th>Project Type</th>
<th>Rehabilitation</th>
<th>Acquisition</th>
<th>New Construction</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Projects</td>
<td>Units</td>
<td>Projects</td>
<td>Units</td>
</tr>
<tr>
<td>Affordable Housing Education and Development (Littleton)</td>
<td>5</td>
<td>19</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Concord Area Trust for Community Housing (Concord)</td>
<td>1</td>
<td>4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Contoocook Housing Trust (New Ipswich)</td>
<td>1</td>
<td>6</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>Greater Nashua Housing and Community Development Foundation (Nashua)</td>
<td>1</td>
<td>4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Laconia Area Community Land Trust (Laconia)</td>
<td>3</td>
<td>13</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Manchester Area Housing Land Trust (Manchester)</td>
<td>1</td>
<td>9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>The Housing Partnership (Portsmouth)</td>
<td>3</td>
<td>9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>64</td>
<td>5</td>
<td>25</td>
</tr>
</tbody>
</table>
In a survey\textsuperscript{10} of project sponsors regarding their experience with the tax credit program, many respondents noted favorably on the general ease of using the tax credit program, specifically the flexibility and timeliness of the program process from application to receipt of the donation by the nonprofit. For the 22 projects, the average turnaround time from proposal submission to project approval was a mere 22 days, but could take as long as 3 months or as little as one day. The shorter turnaround times are likely due to when the nonprofit submitted their completed application relative to when the NHCDFA’s Board was next planning to meet to review and approve new projects. Some projects submitted their applications within a week of the next Board meeting, and if the NHCDFA development officer was able to complete an assessment of the proposed project in time, the application was brought before the Board for review. Few sponsors knew of programs that took care to turnaround proposals as quickly. Once projects were approved by the Board, property donations were still subject to appraisals and appraisal reviews to determine donation value. The appraisal and appraisal reviews could be completed in a month.

Through these 22 projects, 113 units of affordable rental housing were to be preserved or created. On average, each project was responsible for five units, and most buildings contained two to four units. These were relatively small projects, located in a variety of established neighborhoods. For the most part, the projects were small because the existing multifamily buildings had two to four units, which fit into the character of the surrounding neighborhood. An additional benefit of the small project sizes is that they helped the lesser experienced nonprofit housing organizations start a portfolio of properties to manage. For example,

\textsuperscript{10} This survey of participating project organizations was conducted in the fall of 1995 for An Evaluation of the Effectiveness of the New Hampshire Community Development Finance Authority State Tax Credit Program.
The Contoocook Housing Trust was established in 1990 to address the need for affordable housing for families earning less than $25,000/year. A NHCDFA project was the first project for the organization, and eventually they undertook six affordable rental housing projects through the NHCDFA. The organization's staff, however, did have considerable development experience.

The organization known as Affordable Housing Education and Development was established to meet the affordable housing needs of low income people in Coos and northern Grafton counties. In 1992, the organization was awarded a $250,000 CDBG grant to acquire and renovate multifamily housing. They were able to utilize this grant and start their property portfolio with the donations of property received through the NHCDFA program.

The Greater Nashua Housing and Community Development Foundation's overall purpose is to acquire, develop and maintain affordable housing on a long-term basis. Their first project through the NHCDFA tax credit program was successfully completed, but other non-NHCDFA-related projects undertaken had not come to fruition. Their second NHCDFA project here helped bolster the organization's project base.

Evidently, the NHCDFA program provided more than a property portfolio for the project sponsors. The program helped build capacity within these organizations, furthering the possibility for these nonprofits to continue providing housing and other needed services within their communities.

**Donors**

Donations in support of affordable rental housing totaled $2,113,087, with $1,947,300 donated in property, and $165,787 donated in cash. Table 3-2 shows the donations by project type and the NHCDFA fees and tax credits associated with the donations. The donors in the NHCDFA program were businesses (primarily banks) who donated property and who could benefit from a New Hampshire state tax credit. New Hampshire does not collect an individual income tax other than on excessive interest and dividend income, but does collect taxes from businesses in the forms of the Business Enterprise Tax and the Business Profits Tax. According to the NHCDFA tax credit program rules, businesses could receive up to $200,000 a year in tax credits for five years. With the flat rate of 75% of donation value used to calculate the credit, for every
### Table 3-2
Donations through NHCDFA Program
All Projects

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Rehabilitation</th>
<th>Acquisition</th>
<th>New Construction</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property Donations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Projects</td>
<td>15</td>
<td>5</td>
<td>-</td>
<td>20</td>
</tr>
<tr>
<td><strong>Cash Donations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Projects</td>
<td>1</td>
<td>-</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total Donations</strong></td>
<td>$1,180,087</td>
<td>$818,000</td>
<td>$115,000</td>
<td>$2,113,087</td>
</tr>
<tr>
<td>Number of Projects</td>
<td>15</td>
<td>5</td>
<td>2</td>
<td>22</td>
</tr>
<tr>
<td><strong>NHCDFA fee</strong></td>
<td>$156,306</td>
<td>$127,509</td>
<td>$23,000</td>
<td>$306,815</td>
</tr>
<tr>
<td>Average Percent of Donation</td>
<td>13.5%</td>
<td>14.6%</td>
<td>20.0%</td>
<td>14.3%</td>
</tr>
<tr>
<td><strong>Total Tax Credits Awarded</strong></td>
<td>$885,065</td>
<td>$613,500</td>
<td>$86,250</td>
<td>$1,584,815</td>
</tr>
<tr>
<td>Average Per Project</td>
<td>$59,004</td>
<td>$122,700</td>
<td>$43,125</td>
<td>$72,037</td>
</tr>
</tbody>
</table>

*Total Number of Projects for Rehabilitation and for All properties do not equal the sum of projects receiving property donations and projects receiving cash donations because one project received both a property and a cash donation.

Total Tax Credits Awarded represents the total credit amount allocated for the five-year period. Recipients had the option to use and carryover credits at their discretion, subject to certain limits on total credits used per year, as set forth by the New Hampshire State Legislature.
dollar donated through the NHCDFA, the donor would receive $0.75 in tax credits to be used against the Business Enterprise Tax. A study\(^\text{11}\) on the impact of the tax credit done by the New Hampshire Department of Revenue Administration notes that contributions to the NHCDFA could be deductions in calculating a business's Business Profits Tax, creating an additional $0.07 less in taxes paid to the New Hampshire general fund. Thus, for every dollar donated through the NHCDFA tax credit program, the donor would lessen its state tax liability by $0.82. Also, the remaining $0.25 per dollar donated through the NHCDFA was considered a charitable contribution and an allowable federal income tax deduction.

While the financial returns to donors are obvious, a review of the New Hampshire economy and the project files further emphasizes additional motivations to donate properties. Some localities in New Hampshire showed economic growth, but the areas in which these donated properties were located were still suffering from slow growth or economic declines. Pease Air Force Base in Dover closed. Housing vacancy rates increased. Rising unemployment due to the Base closing and other factors caused concern among property owners that tenants would not keep up with rents. Property values were declining, some due to disrepair and lack of maintenance.

Numerous multifamily properties were for sale, but few were selling. In the area around Peterborough, some 85 multifamily properties were listed for sale, and only 17 had sold in the last year. With the banking crisis and economic failures of the late 1980s and early 1990s, many of the properties were foreclosed upon. Unable to find other buyers for the properties at auction, the banks were left holding the properties. Faced with the existing market for multifamily housing and because they were not in the

\(^{11}\) This study, mentioned in Chapter 2, cited the cost of the NHCDFA tax credit program to the state, and eventually led the New Hampshire Legislature to revoke the NHCDFA's authority to issue tax credits.
business of property management, the banks were probably eager to rid themselves of their nonperforming properties through the NHCDFA program.

Given that the tax credit for property donations were calculated based on appraised property values, it was in the best financial interest of the bank to get high, yet fair, appraised values for their donations. While the overall donation process through the NHCDFA program was fairly easy, the times where there was conflict or disagreement was in obtaining and agreeing on an appraised property value. In most cases, the bank provided the NHCDFA with an appraisal of the property. The NHCDFA would also have an appraisal done, and then get an appraisal review. Disagreement in the appraisal caused uneasy moments with the nonprofit housing organizations, because although a lower appraised value would lower the NHCDFA fee paid by the nonprofit, it could also cause the bank to withdraw its intent to donate the property.\(^\text{12}\) Of the 20 projects here that received property donations, 16 of them were appraised at lower values than what was originally submitted. The smallest difference was a value lowered by 3.2%, but most were lower by between 11.0% and 21.5%. Even the donations with these large discrepancies were eventually made.

It would seem that despite the lowered appraisal values, the tax credit and being rid of the nonperforming properties was enough incentive to go ahead and make the donation. Yet, there are other possible benefits to the property donors that were not explored fully here. One, the value of the tax credit may have exceeded what banks could expect to receive at a "fire sale" in the depressed property market. Also, the transaction costs of going through the NHCDFA program are likely to have been significantly lower than any other available means of property disposition.

\(^{12}\) It is unclear if this ever actually happened. Records for projects not approved for the NHCDFA tax credit program were incomplete.
It is probably unfair to classify all the donors as being only financially motivated. In a survey\textsuperscript{13} of donors, most welcomed the opportunity to participate in addressing community needs. Some banks also noted that an additional motivation to donate through the NHCDFA program was to get credit towards its Community Reinvestment Act (CRA) rating. Nearly 60% of the survey respondents also noted that without the tax credit program, they would have made their donations to other worthwhile causes not necessarily addressed by the NHCDFA projects.

Many of the donors to NHCDFA projects participated in more than one project, making multiple donations of cash and of property. Typically, once an application for a tax credit project was approved by the NHCDFA in an expeditious manner, the donor opted to again be part of another project with the same nonprofit housing organization. The NHCDFA program, in essence, helped to foster a relationship between donating institutions and the nonprofit community. These relationships did not necessarily continue beyond the donation process, and such relationships were at a disadvantage to further form once the tax credit program ended.

**NHCDFA**

The NHCDFA’s role in the tax credit program is obvious. Staff reviewed completed applications and made recommendations to the NHCDFA Board of Directors, who in turn voted to approved or request additional information or modifications on the proposed project. Through the tax credit program, the NHCDFA was able to finally meet its mandate to foster and encourage economic development and affordable housing development in distressed areas of the state.

\textsuperscript{13} This survey of donors was conducted in the fall of 1995 for *An Evaluation of the New Hampshire Community Development Finance Authority State Tax Credit Program.*
While NHCDFA knew they were offering a valuable service to the donors and nonprofits participating in the tax credit program, it seemed they also understood the importance of being expeditious and flexible throughout the application and implementation process of the projects. Three factors seemed to encourage the progress of applications through the NHCDFA review process:

- NHCDFA wanted to get the projects underway as soon as possible;
- Donations of cash and property offered one day may not be available the next day; and
- Nonprofits found they were better able to secure additional project funding once the donation through the NHCDFA tax credit program was approved. Thus, for projects that required additional funding, other sources were more likely to release funds once the NHCDFA donation was in place.

Of course, not all applications from the nonprofit project sponsors were complete or acceptable. NHCDFA staff did sometimes work with nonprofits that needed to provide more information on their applications. If a project was considered worth pursuing, but payment of the NHCDFA tax credit program fee was overly burdensome to the nonprofit, the NHCDFA would lower the fee or work out a payment plan at no interest. By maintaining this flexibility with the program rules (the program calls for an upfront fee of 15% in a property transaction), the NHCDFA expedited the commencement of many projects, plus encouraged nonprofits to arrange and submit more applications for more projects with more donors and donations.

The role of the NHCDFA does not end with the donation process complete. The donation agreements drawn up by the NHCDFA requires the properties be kept affordable for ten years and occupied by households whose income is below 80% of area median. To help insure adherence to these requirements, the NHCDFA expects quarterly financial reports and intends to make an annual visit to all project properties. On occasion, NHCDFA staff do follow-up with nonprofits who have not submitted
reports, but because there are no dates specified for receipt of reports from nonprofits nor for the annual visits, many of these requirements have not been completed on a regular basis. NHCDFA sees this as flexibly managing the projects and have not yet encountered problems by not following up with project reporting requirements.

Financial Structure

The NHCDFA Investment Incentive Program offered a way to provide financing support for housing and community development. Although not a direct subsidy from the New Hampshire state government, the state stood to lose general tax revenue of as much as $0.82 per dollar invested by private donors through the NHCDFA program. Because of the lack of support for a direct subsidy, it is unlikely the state would have shown such strong support for housing and community development without the tax credit program. Components of the financial structure of the NHCDFA program projects are analyzed below.

Donations and NHCDFA Fees

To help understand how the donations and NHCDFA fees were analyzed for this thesis, below is a simplistic financial structure for the donation of $100 worth of property through the NHCDFA tax credit program:
Sources of Funds

Nonprofit Sponsor Cash $15
Property Donation $100
Total Sources $115

Uses of Funds

Acquisition $100
NHCDFA Fee $15
Total Uses $115

Tax Credit Award $75

In other words, although the $100 worth of property is donated and the sponsoring nonprofit paid the $15 (15%) fee, the donation value should still be accounted for somewhere in the financial structure of the donation. In their project pro formas, most nonprofits did not consider the value of the donation in their project development budgets. They simply listed a $15 acquisition cost. The simplistic financial structure of a $100 cash donation is similar, except the sponsor would need to pay a $20 fee, or 20% of the donation. What is seen through a cash donation transaction, however, is the NHCDFA keeping the 20% fee from the donation and passing 80% of the donation to the nonprofit sponsor. These are only simplistic donation transaction models because in reality, various adjustments to the model - including lowering the NHCDFA fee, working out a fee payment schedule, and obtaining additional sources of cash and debt funds - are needed to make the transaction feasible.

As mentioned earlier, the total donations made in support of the affordable rental housing projects here was $2,113,087. Most of it was in the form of properties for rehabilitation and acquisition-only projects. The tax credits awarded to donors was a straight 75% of the donation value. The NHCDFA fees, however, were labeled as too
high by some nonprofits. The NHCDFA offered to negotiate down the fee to help the nonprofit housing organization complete the project. Fees for cash donations were not negotiated down and were kept at 20%, but the 15% NHCDFA fee on property donations was sometimes lowered. Including the fees paid for the cash donations, the average fee paid to the NHCDFA for a rehabilitation project was 13.5%, and for an acquisition project, 14.6%.

Six projects had their fees lowered, usually by a few percentage points, but one was lowered to 1.8%. With this project, the NHCDFA records show the nonprofit paid $1,000 for a property valued at $55,000. While this lowered fee was helpful in making the project affordable, it was also hoped that the donating bank would be encouraged to donate more properties through the NHCDFA program. The bank was believed to have numerous foreclosed properties in their possession. This bank became one of the larger donators of both property and cash through the program.

The method of paying the NHCDFA was also negotiable for donations of property. If the sponsoring organization lacked funds to pay the fee upfront, the NHCDFA development officer who reviewed applications could recommend to the Board that only a portion of the fee be collected upfront while the remainder of the fee be set up as a mortgage. The most common arrangement for the mortgage agreement was for the sponsor to submit the project’s quarterly income and expense reports. After allowing for management fees and income for reserves, the NHCDFA expects a payment of 25% of net operating income. This mortgage is set up as a no interest loan, payable for 30 years or until the remainder of the fee is paid, whichever comes first. Depending on a property’s expected income, terms of this mortgage could deviate somewhat, with some sponsors agreeing to pay 50% of net operating income and others agreeing to pay off the mortgage in 3 years. Table 3-3 summarizes, by project type, the methods by
<table>
<thead>
<tr>
<th>Project Type</th>
<th>Rehabilitation</th>
<th>Acquisition</th>
<th>New Construction</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upfront Payment Only</td>
<td>$64,000</td>
<td>$0</td>
<td>$23,000</td>
<td>$87,000</td>
</tr>
<tr>
<td>Total Number of Projects</td>
<td>9</td>
<td>0</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Mortgage Agreement</td>
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</tr>
<tr>
<td>Total Number of Projects</td>
<td>6</td>
<td>5</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Upfront Payment</td>
<td>$29,250</td>
<td>$20,000</td>
<td>$0</td>
<td>$49,250</td>
</tr>
<tr>
<td>Mortgage</td>
<td>$63,056</td>
<td>$107,509</td>
<td>$0</td>
<td>$170,565</td>
</tr>
<tr>
<td>Total</td>
<td>$92,306</td>
<td>$127,509</td>
<td>$0</td>
<td>$219,815</td>
</tr>
<tr>
<td>Average Percent of Fee/Project</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upfront Payment</td>
<td>31.0%</td>
<td>18.7%</td>
<td>-</td>
<td>25.4%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>69.0%</td>
<td>81.3%</td>
<td>-</td>
<td>74.6%</td>
</tr>
<tr>
<td>Total NHCDFA Fee</td>
<td>$156,306</td>
<td>$127,509</td>
<td>$23,000</td>
<td>$306,815</td>
</tr>
<tr>
<td>Total Number of Projects</td>
<td>15</td>
<td>5</td>
<td>2</td>
<td>22</td>
</tr>
</tbody>
</table>
which projects paid the NHCDFA fee. Six of the rehabilitation projects used a mortgage agreement to pay its NHCDFA fees, paying an average of 31% of the fee upfront. All of the acquisition projects mortgaged the NHCDFA fees, paying an average of 18.7% upfront. The NHCDFA saw these payment options as necessary to make the project reality, and it illustrates an additional subsidy needed to provide affordable housing.

Sources and Uses of Funds

The total development budget is more than what is seen in the cash flows. The full costs involved with developing affordable housing should account for the value of donations and other subsidies not typically available to for profit development. This section examines the sources and uses of project funds. Analysis is done on the total effort for rehabilitation, acquisition, and new construction development projects. Some per unit costs will be examined in comparison with the LIHTC in the next chapter.

Development budget data, NHCDFA tax credit project applications, program agreements, and tax credit award letters were used to construct the full sources and uses of development funds. In reconciling the data, some shortfalls in sources of funds were assumed to be paid by cash equity of sponsoring organizations. Similarly, shortfalls of uses of funds were labeled as unknown. Even with the addition of funds to reconcile sources and uses, it is unlikely that full development costs have been accounted. Values for some subsidies and donations were not able to be included. Known costs, such as New Hampshire’s transfer tax for property were not listed in project records. Tax credits awarded through the NHCDFA program were also excluded from the sources and uses to get a better look at what the nonprofit experiences from the program.

Within a sponsoring organization’s array of projects through the NHCDFA program, sources and uses of funds are similarly structured. Projects will have the same
donor, the same type of donation, the same cash equity sources, and the same debt fund sources. Ease of program use encouraged all parties involved to further utilize the NHCDFA tax credit program.

One of the new construction projects simply stated that it expected to utilize over $1 million in funds but did not clearly specify the mix of funding types nor the mix of funding uses. Because of this data characteristic, it was extremely difficult to make generalizations about new construction development projects through the NHCDFA program.

Table 3-4 summarizes the sources and uses of funds for all projects. This represents the total development effort by project type.

Sources of Funds

The sources of project funding have been broadly classified into three categories:

- **Cash Equity.** This category includes the sponsoring nonprofit housing organization’s cash contributions to the project, grants from public and private sources, and cash donations through the NHCDFA tax credit program.

- **Debt Funds.** This second source of funds includes all loans, including private loans from banks, loans made through public financing programs, and NHCDFA fees paid through a mortgage agreement.

- **Non-cash Resources.** This last category covers all property donations. Due to a lack of data, these totals do not include the calculated values of specialized financing such as below market loans or other reduced fees or donated services.

The category labeled Unknown is explained above.

The largest sources of funds for project development was from non-cash resources. The non-cash resources cover all property donations through the NHCDFA tax credit program and emphasizes its impact on project development. As could be expected, significant portions of rehabilitation development funds were in the form of
### Table 3-4
**Total Sources and Uses of Funds**
**All Projects**

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Rehabilitation</th>
<th>Acquisition</th>
<th>New Construction</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>%</td>
<td>$</td>
<td>%</td>
</tr>
<tr>
<td><strong>Sources of Funds</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Equity</td>
<td>588,035</td>
<td>23.7</td>
<td>20,000</td>
<td>2.1</td>
</tr>
<tr>
<td>Debt Funds</td>
<td>763,610</td>
<td>30.8</td>
<td>107,509</td>
<td>11.4</td>
</tr>
<tr>
<td>Non-cash Resources</td>
<td>1,129,300</td>
<td>45.5</td>
<td>818,000</td>
<td>86.5</td>
</tr>
<tr>
<td>Unknown</td>
<td>-</td>
<td>0.0</td>
<td>-</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td>2,480,945</td>
<td>100.0</td>
<td>945,509</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Uses of Funds</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition</td>
<td>1,136,300</td>
<td>45.8</td>
<td>818,000</td>
<td>86.5</td>
</tr>
<tr>
<td>Development Costs (Hard)</td>
<td>933,370</td>
<td>37.6</td>
<td>-</td>
<td>0.0</td>
</tr>
<tr>
<td>Development Costs (Soft)</td>
<td>237,578</td>
<td>9.6</td>
<td>-</td>
<td>0.0</td>
</tr>
<tr>
<td>NHCDFA Fee</td>
<td>156,306</td>
<td>6.3</td>
<td>127,509</td>
<td>13.5</td>
</tr>
<tr>
<td>Other/Unknown</td>
<td>17,391</td>
<td>0.7</td>
<td>-</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td>2,480,945</td>
<td>100.0</td>
<td>945,509</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total Tax Credits Awarded</strong></td>
<td>885,065</td>
<td>NA</td>
<td>613,500</td>
<td>NA</td>
</tr>
</tbody>
</table>

*Total Tax Credits Awarded represents the total credit amount allocated for the five-year period. Recipients had the option to use and carryover credits at their discretion, subject to certain limits on total credits used per year, as set forth by the New Hampshire State Legislature.*
cash and debt, as compared to the sources for acquisition projects. These funds were needed to cover rehabilitation costs.

The debt funds listed under acquisition were all mortgage agreements to pay the NHCDFA fees. The cash equity for these projects was assumed, since all projects were required to pay some of the NHCDFA fee upfront. The NHCDFA program, with its focus on assisting nonprofits to acquire properties, shows a great deal of efficiency in the acquisition development projects. By not having to obtain funding from other cash or debt sources, use of the NHCDFA program was in essence a one-stop source for assembling and adding to one's property portfolio.

Recent studies of nonprofit housing development emphasize the difficulty of acquiring funds. They cite a shortage of available funds and smaller sized grants and loans that necessitate the need for multiple funding sources. These studies examined nonprofit housing development that used between 5 to 11 funding sources; anecdotal evidence has some other projects using up to 17 funding sources. Affordable rental housing development projects here listed from one to four funding sources, two on average. With multiple funding sources is the task of managing the reporting and program requirements for all the different sources. The survey of project sponsors in the NHCDFA program found that an approved NHCDFA application helped secure other sources of project funding. Sources of other funding are examined below.

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Cash Equity

Thirteen of the fifteen rehabilitation development projects needed to utilize some form of cash equity. Table 3-5 summarizes the cash equity available for all projects by project type. The most widely used source was grants through local Community Development Block Grant (CDBG) Programs. Eleven projects used $435,248 in CDBG acquisition and rehabilitation grants. One rehabilitation project and one new construction project used grants through the federally-sponsored HOME program. In addition to cash donations obtained through the NHCDFA program, other local grants totaling $32,500 were available for the rehabilitation projects. Acquisition projects appear to have been spared the need to find outside cash funding.

Debt Funds

Loans were available from both public and private sources. The largest source of debt funds was private banks. Table 3-6 summarizes the debt funds obtained for all projects by project type. These eleven loans appear to have all been regular, market rate loans. The public sources of funds include loans through CDBG, HOME, the New Hampshire Community Loan Fund, and the Community Banking Council, a local bank pool. The CDBG and HOME loans appear to be below market rate.

The NHCDFA program places limits on the annual debt service a project can take on, to help assure project success and affordability. On average, each development project had less than $50,000 worth of debt.

Uses of Funds

The uses of project funding have been classified into five categories:

- **Acquisition.** This category includes listed costs for property buildings and land. Nearly all of the funds in this category were for property donations.
<table>
<thead>
<tr>
<th>Project Type</th>
<th>Rehabilitation</th>
<th>Acquisition</th>
<th>New Construction</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDBG</td>
<td>$435,248</td>
<td>$0</td>
<td>$0</td>
<td>$435,248</td>
</tr>
<tr>
<td>Number of Projects</td>
<td>11</td>
<td>-</td>
<td>-</td>
<td>11</td>
</tr>
<tr>
<td>HOME</td>
<td>$67,000</td>
<td>$0</td>
<td>$330,215</td>
<td>$397,215</td>
</tr>
<tr>
<td>Number of Projects</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>NHCDFA Donation</td>
<td>$50,787</td>
<td>$0</td>
<td>$115,000</td>
<td>$165,787</td>
</tr>
<tr>
<td>Number of Projects</td>
<td>1</td>
<td>-</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Other Grants</td>
<td>$32,500</td>
<td>$0</td>
<td>$0</td>
<td>$32,500</td>
</tr>
<tr>
<td>Number of Projects</td>
<td>6</td>
<td>-</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Organization Equity</td>
<td>$2,500</td>
<td>$20,000</td>
<td>$0</td>
<td>$22,500</td>
</tr>
<tr>
<td>Number of Projects</td>
<td>1</td>
<td>5</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total Cash Equity</strong></td>
<td><strong>$588,035</strong></td>
<td><strong>$20,000</strong></td>
<td><strong>$445,215</strong></td>
<td><strong>$1,053,250</strong></td>
</tr>
<tr>
<td>Number of Projects</td>
<td>13</td>
<td>5</td>
<td>2</td>
<td>20</td>
</tr>
</tbody>
</table>

<p>| Average Cash Equity Per Project | $45,233 | $4,000 | $222,608 | $52,663 |
| Average Number of Sources      | 2       | -      | 3        | 2       |</p>
<table>
<thead>
<tr>
<th>Project Type</th>
<th>Rehabilitation</th>
<th>Acquisition</th>
<th>New Construction</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Funds</td>
<td>$288,538</td>
<td>$0</td>
<td>$160,000</td>
<td>$448,538</td>
</tr>
<tr>
<td>Number of Projects</td>
<td>5</td>
<td>-</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Private Funds</td>
<td>$412,016</td>
<td>$0</td>
<td>$0</td>
<td>$412,016</td>
</tr>
<tr>
<td>Number of Projects</td>
<td>11</td>
<td>-</td>
<td>-</td>
<td>11</td>
</tr>
<tr>
<td>NHCDFA Fee Mortgage</td>
<td>$63,056</td>
<td>$107,509</td>
<td>$0</td>
<td>$170,565</td>
</tr>
<tr>
<td>Number of Projects</td>
<td>6</td>
<td>5</td>
<td>-</td>
<td>11</td>
</tr>
<tr>
<td>Total Debt Funds</td>
<td>$763,610</td>
<td>$107,509</td>
<td>$160,000</td>
<td>$1,031,119</td>
</tr>
<tr>
<td>Number of Projects</td>
<td>15</td>
<td>5</td>
<td>1</td>
<td>21</td>
</tr>
<tr>
<td>Average Debt Per Project</td>
<td>$50,907</td>
<td>$21,502</td>
<td>$160,000</td>
<td>$49,101</td>
</tr>
</tbody>
</table>
**Development Costs (Hard).** Funds in this category cover costs listed for capital improvements, rehabilitation, and construction, including all site work.

**Development Costs (Soft).** This third category covers listed fees and carrying costs for permits, finance, legal assistance, marketing, and other development costs.

**NHCDFA fee.** Some NHCDFA fee was paid for all projects. For donations of property, this fee was often considered the acquisition price by the project sponsor.

**Other/Unknown.** Funds in this last category covered shortfalls in the uses of funds. The large amount under the new construction category again makes analysis difficult.

The importance of funding for acquisition is apparent when looking at the uses of funds amongst the NHCDFA projects for affordable rental housing. It again emphasizes the impact of the tax credit program on the overall project budgets. Without the program, it would have been extremely difficult to raise funds, whether cash or debt funding, to cover costs of acquisition. It would have been even more difficult for the rehabilitation development projects, who already had to obtain large amounts of funds to complete rehabilitation work. They would have had to be twice as productive in obtaining funds without the tax credit program.

**Tax Credits**

To examine the importance of the tax credit on project financing, the ratio of the tax credit amount to total development costs were calculated for all projects. Table 3-7 shows the distribution of these ratios by project type. It again emphasizes the importance of the tax credit with the acquisition projects. The tax credit covered nearly all of the costs for the acquisition projects. Because these units needed no construction or rehabilitation work, the projects had no other development costs, hence the ratios were higher. These projects also had the highest tax credit averages per project. The buildings were in the best condition of all property donations, so the projects had higher assessed property values. The lowest ratios were with the new construction projects.
Table 3-7
Ratio of Tax Credits Awarded to Total Development Costs, Per Project
Distribution by Project Type

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Rehabilitation</th>
<th>Acquisition</th>
<th>New Construction</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Number</td>
<td>Number</td>
<td>%</td>
</tr>
<tr>
<td>.01-.10</td>
<td>- 0.0</td>
<td>- 0.0</td>
<td>2 100.0</td>
<td>2 9.1</td>
</tr>
<tr>
<td>.11-.20</td>
<td>- 0.0</td>
<td>- 0.0</td>
<td>- 0.0</td>
<td>- 0.0</td>
</tr>
<tr>
<td>.21-.30</td>
<td>5 33.3</td>
<td>- 0.0</td>
<td>- 0.0</td>
<td>5 22.7</td>
</tr>
<tr>
<td>.31-.40</td>
<td>3 20.0</td>
<td>- 0.0</td>
<td>- 0.0</td>
<td>3 13.6</td>
</tr>
<tr>
<td>.41-.50</td>
<td>5 33.3</td>
<td>- 0.0</td>
<td>- 0.0</td>
<td>5 22.7</td>
</tr>
<tr>
<td>.51-.60</td>
<td>2 13.3</td>
<td>- 0.0</td>
<td>- 0.0</td>
<td>2 9.1</td>
</tr>
<tr>
<td>.61-.70</td>
<td>- 0.0</td>
<td>5 100.0</td>
<td>- 0.0</td>
<td>5 22.7</td>
</tr>
<tr>
<td>.71-.80</td>
<td>- 0.0</td>
<td>- 0.0</td>
<td>- 0.0</td>
<td>- 0.0</td>
</tr>
<tr>
<td>.81-.90</td>
<td>- 0.0</td>
<td>- 0.0</td>
<td>- 0.0</td>
<td>- 0.0</td>
</tr>
<tr>
<td>.91-1.00</td>
<td>- 0.0</td>
<td>- 0.0</td>
<td>- 0.0</td>
<td>- 0.0</td>
</tr>
<tr>
<td>Total</td>
<td>15 100.0</td>
<td>5 100.0</td>
<td>2 100.0</td>
<td>22 100.0</td>
</tr>
</tbody>
</table>

Average Ratio 0.38 0.65 0.05 0.41
With those projects, the tax credit provided a donation that became part of a much larger budget. As development costs go up, the tax credit becomes smaller relative to full development costs.

Rehabilitation projects, while less dependent on tax credit funds, still relied on them, on average, for 38% of total development costs.

Program Goals and Outcomes

A few issues arise when thinking about the goals and outcomes of the NHCDFA tax credit program's affordable rental housing projects. One is the question of whether these projects were actually completed. Much of the financial information was gathered from the proposal project files, which were submitted when the NHCDFA Investment Incentive Program was in active operation from 1992-1994. As could be expected, not all projects were financed or completed exactly as planned. The less complicated the project, however, the more likely the project has been completed, providing needed housing for low to moderate income households. Specifically, all the straight acquisition projects, which needed no construction nor any rehabilitation work, have been completed, seemingly with little trouble or deviation from plan. These projects, which all negotiated mortgages to pay their NHCDFA fees, have been submitting regular reports and making their payments, more or less on time. NHCDFA staff are understanding of reports that are a little late, but will question high allowances for management fees or operating reserves that are subtracted from the mortgage payments.

Rehabilitation projects were also mostly completed by the end of 1994. The extent to which these sponsors encountered obstacles is unclear. One project did experience cost overruns that necessitated taking on additional debt from a private bank. For the bank to agree to the new loan, the NHCDFA was asked to take a second
position for the NHCDFA fee mortgage. The NHCDFA agreed once it was determined that even with the additional debt, the project financing was still within the guidelines of the NHCDFA program.

Neither of the new construction projects were seen to fruition as planned. Both projects went through the NHCDFA tax credit program to acquire cash donations. One project had already started drawing down funds when the project was cancelled. The nonprofit housing organization, however, was able to put together another affordable housing development project to use the remainder of the NHCDFA program donation. The other new construction project had planned to use their donation for pre-development activities. According to the final agreement, if the housing project was completed, the cash donation was to be considered a loan which would be repaid one the development was ready for occupancy. Otherwise, the donation would be treated as a grant. In the project proposal, the sponsor hoped to leverage its NHCDFA program monies with over $1 million, including some from the Low Income Housing Tax Credit (LIHTC) and CDBG. Data from the New Hampshire LIHTC program administrators suggest that low income housing tax credits have never been awarded for the project. NHCDFA records consider the donation a cash grant and not a loan.

A second program outcome considers the tenancy of the available units. Demographics on tenants, including household income and composition, was not available. NHCDFA tax credit program requirements are that household income not exceed 80% of area median income. Most of the project proposals aim to keep units affordable to those whose incomes are below 50-60% of area median, with some planning to keep units affordable to those at 35% of area median income. Being able to keep rents so low are a tribute to the mission of the nonprofits and to the donations and financing available through the NHCDFA tax credit program.
Summary

During the two years of program operation, the NHCDFA tax credit program supported 22 projects in the development of 113 units of affordable rental housing in New Hampshire. Undertaken by seven different nonprofit housing organizations, these projects included development by rehabilitation, acquisition, and new construction. The program effectively helped these nonprofits start and build a portfolio of affordable rental properties, mainly by a process that gave banks the opportunity to rid themselves of nonperforming, foreclosed properties.

The donations of both cash and property were important sources of equity for all of the projects. Property donations were especially important factors to the success of rehabilitation and new acquisition projects. Because the nonprofits were able to acquire properties for a NHCDFA fee of 15% of appraised value, they were able to lower the amount of debt needed to finance their NHCDFA program projects. This helped keep rents affordable.

An additional unique feature of the NHCDFA tax credit program was the ability to mortgage some of the NHCDFA program fees. These were no interest mortgages, with payments based on net operating income. Mortgaged NHCDFA fees were a further help to the nonprofits in acquiring their properties. The support shown the nonprofits by the NHCDFA program through its ease of use and the negotiated fee agreements encouraged the nonprofits to pursue other projects through the NHCDFA program, further building their property management experience.

While the projects that involved property donations have been mostly completed and are now operational, the projects that involved cash donations and new construction have not yet seen fruition. The cash donations comprised a small
percentage of all planned funding sources, so the impact from the tax credit program was not as great as with the property donation projects. With the additional costs and funding involved, it seems unlikely that a state tax credit program can provide the necessary support for new construction projects.
CHAPTER 4

THE LIHTC VS. THE NHCDFA TAX CREDIT PROGRAM

To give the projects created through NHCDFA tax credit program some context, it helps to make some comparisons to other affordable housing development programs. One such program is the federally-sponsored Low Income Housing Tax Credit (LIHTC). The programs differ in both scope and size, but have some common features, namely the use of a tax credit to attract investment equity and program goals to increase the availability of affordable housing for low and moderate income households. The LIHTC, created in the Tax Reform Act of 1986, is regularly threatened for sunsetting by the U.S. Congress. Although made a permanent part of the Internal Revenue Code in the Revenue Reconciliation Act of 1993, the LIHTC is unlikely to survive a future round of budget negotiations.

The LIHTC is by far the most widely-used federal funding mechanism among affordable rental housing development projects. Although other housing development programs do exist, including the HOME program and Section 515 Rural Rental Assistance, nearly all of these programs also utilize the LIHTC in their projects. From 1987-1994, over 710,000 units of affordable rental housing were put in place with these tax credits.

Tax credits are allocated to states at a rate of $1.25 per capita, and New Hampshire’s allocation is one of the smallest. Nationally, the 710,000 units of affordable housing have received $3.3 billion of annual tax credits during 1987-1994. The agency that administers New Hampshire’s annual allocation of low income housing

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15 The federally-sponsored Section 202 Program for elderly and handicapped housing, another affordable housing development program, is ineligible for the LIHTC program.
tax credits is the New Hampshire Housing Finance Authority (NHHFA). Since its creation in 1975, the NHHFA has helped administer both federal and state housing assistance and housing finance programs. The 1995 NHHFA Annual Report shows assets in excess of $1 billion.

By law, the NHHFA is required to make public its annual qualified allocation plan, which documents program rules and the criteria by which projects are selected to receive low income housing tax credits. The NHHFA has also made public lists of New Hampshire’s LIHTC recipients. These lists contain:

- year of tax credit award (1987-1995);
- project name;
- location (town or city);
- number of units;
- tax credit amount; and
- project contact (sponsor/owner, agency/firm name, and address).

This information is similarly available from the U.S. Department of Housing and Urban Development’s database of LIHTC projects.

From 1987-1995, New Hampshire has allocated over $5 million in annual low income housing tax credits in support of nearly 2,000 units of low income housing. Table 4-1 summarizes the LIHTC allocation information for 1987-1995. Financing and other development cost information is not available through the NHHFA. This information is often not available from the owners and developers of LIHTC projects as well, because such information is considered confidential by many development firms. Project owners who received LIHTC awards from 1992-1994 were contacted to provide insight on their experience with the LIHTC program, including a project financial summary. Few sponsors were able to respond to this data request, and those who did
spoke in general terms for all of their projects undertaken with low income housing tax credits. Of these few sponsors, some noted that they had heard of the NHCDFA tax credit program, recalling it as some very small, short-lived program that “didn’t do too much.”

Table 4-1
Low Income Housing Tax Credit Allocations

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Credits Allocated</th>
<th>Number of Projects</th>
<th>Number of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>89,665</td>
<td>3</td>
<td>35</td>
</tr>
<tr>
<td>1988</td>
<td>685,692</td>
<td>6</td>
<td>431</td>
</tr>
<tr>
<td>1989</td>
<td>862,926</td>
<td>13</td>
<td>436</td>
</tr>
<tr>
<td>1990</td>
<td>117,176</td>
<td>2</td>
<td>58</td>
</tr>
<tr>
<td>1991</td>
<td>169,617</td>
<td>3</td>
<td>70</td>
</tr>
<tr>
<td>1992</td>
<td>181,586</td>
<td>3</td>
<td>88</td>
</tr>
<tr>
<td>1993</td>
<td>281,007</td>
<td>5</td>
<td>75</td>
</tr>
<tr>
<td>1994</td>
<td>1,478,402</td>
<td>13</td>
<td>450</td>
</tr>
<tr>
<td>1995</td>
<td>1,578,061</td>
<td>19</td>
<td>297</td>
</tr>
<tr>
<td>Total</td>
<td>5,444,132</td>
<td>67</td>
<td>1,940</td>
</tr>
</tbody>
</table>

Source: New Hampshire Housing Finance Authority Low Income Housing Tax Credit Recipient List.

Using the available data, some limited generalizations and comparisons can be made of the LIHTC program in New Hampshire and the NHCDFA tax credit program.

Program Processes

There are a few similarities between the NHCDFA Investment Incentive Tax Credit Program and the Low Income Housing Tax Credit Program. To begin with, both use a tax credit to promote the creation and development of affordable housing for low and moderate income households. Both programs allow projects for acquisition,\(^{16}\)

\(^{16}\) The Low Income Housing Tax Credit Program allows for the acquisition of buildings, but the acquisition of land is not included in the eligible basis.
rehabilitation, and new construction. Donors and investors to both programs can be either individuals or businesses. The use of a nonprofit organization for housing development is either required or given some preference.\textsuperscript{17}

The differences in the program are also apparent from the processes and rules set forth for both programs. The NHCDFA has few rules, but they are simply stated. The Low Income Housing Tax Credit Program in New Hampshire has many rules, regulations, and other guidelines set forth in their qualified allocation plan. Table 4-2 lists some of the differences in program rules. Listing out these differences, however, while informative, does not give much insight into the workings of the tax credit programs. To gain some better understanding of the program processes, the examination here looks at certain characteristics of the players in the programs, specifically, the project sponsors, the donors and investors, and the administering agencies, the NHCDFA and the NHHFA.

\begin{table}
\centering
\begin{tabular}{l|c|c}
\hline
\textbf{ DONATION/INVESTMENT} & \textbf{NHCDFA Program} & \textbf{LIHTC Program} \\
\hline
Donation/Investment & property or cash & cash equity \\
\hline
Calculation of Tax Credit & 75\% of donation value & 4\% or 9\% of eligible basis \\
\hline
Use of Tax Credit by Donor/Investor & 5 years against NH state taxes & 10 years against federal taxes \\
\hline
Tenancy Requirements & 80\% of median area income & 50-60\% of median area income \\
\hline
Length of Affordability & 10 years & 30 years \\
\hline
\end{tabular}
\caption{The Low Income Housing Tax Credit Program vs. the New Hampshire Community Development Finance Authority Tax Credit Program}
\end{table}

\textsuperscript{17} While the federal rules for the LIHTC do not list preferences for nonprofit housing developers, the 1996 New Hampshire Qualified Allocation Plan scores additional points to applications that involve nonprofit housing organizations.
Project Sponsors

The project sponsors of the NHCDFA affordable rental housing projects were all nonprofits, as required by the program rules. These nonprofit housing organizations were typically small, newly-formed entities with limited housing development and management experience. The NHCDFA program was a simple process with a flexibility that allowed many of these nonprofits to start and build their property management portfolios. When the NHCDFA program ended, these project sponsors had gained experience in securing funding from public and private sources, acquiring and rehabilitating properties, and in managing affordable rental housing.

Project sponsors in New Hampshire’s LIHTC program were not necessarily nonprofit organizations. Nearly all of the sponsors from 1987-1994 were for profit development and management firms. These sponsors sometimes were part of larger, established firms that specialized in construction, development, and management while also doing other related consulting work. These firms were sometimes based out of state, in Maine or Rhode Island. These firms also had more sophisticated financing operations well-suited to take on the complex system of rules and regulations to use the LIHTC.

The issue of sponsor experience and size can also be seen in the size of projects undertaken through both programs. In the NHCDFA program, there were 22 projects creating or preserving 113 units of affordable rental housing. From 1992-1994, the LIHTC program in New Hampshire had 21 projects that created or preserved 613 units18

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18 This total includes housing for special needs populations, which includes those with mental, physical, or developmental disabilities, homeless with transitional housing needs, and the elderly. Housing for special needs populations is given some preference according to New Hampshire's 1996 Qualified Allocation Plan. Similar projects were specifically excluded from the analysis of the NHCDFA program. Even if those units were to be included in the number of NHCDFA program units, the LIHTC program in New Hampshire would still have created about five times as many units during 1992-1994.
of affordable rental housing. Thus, LIHTC projects during this period were about five
times as large as the NHCDFA projects. These larger projects are likely to have
benefited from the management experience of the larger, established firms.

As with the NHCDFA tax credit program, project sponsors of New Hampshire
LIHTC projects tended to participate through multiple projects, sometimes across
allocation years and sometimes within the same allocation year. One sponsor noted
that once financing for the organization's first LIHTC project was in place, it served as a
"cookie cutter" for other LIHTC deals. All of that organization's LIHTC projects had
similar financial structures.

Overall, it would seem that each program appealed to different markets of
project sponsors. Interestingly enough the recipients of New Hampshire's 1995
allocation of low income housing tax credits were mostly nonprofit housing
organizations. This is a first for the LIHTC program in New Hampshire. Four of the
seven project sponsors who developed affordable rental housing through the NHCDFA
tax credit program were on that 1995 recipient list, developing larger properties than
they had done previously through the NHCDFA. This suggests that the NHCDFA
program did help build sponsor capacity among the state's small, nonprofit developers.

Donors/Investors

For both programs, overall goals include the development of affordable housing,
and the financing tool is a tax credit to gain equity from donors and investors. The few
sponsors of New Hampshire LIHTC projects that provided data for this study
indicated that tax credit proceeds per unit were from $10,000-$40,000. The donations
in the NHCDFA program totaled $18,700 per unit. Table 4-3 summarizes the total
donations per unit and the total tax credits per unit for the NHCDFA program. For
Table 4-3
Donations Per Unit through NHCDFA Program
All Projects⁴

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Rehabilitation</th>
<th>Acquisition</th>
<th>New Construction</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Donations</td>
<td>$17,645</td>
<td>$32,720</td>
<td>$0</td>
<td>$17,233</td>
</tr>
<tr>
<td>Number of Projects</td>
<td>15</td>
<td>5</td>
<td>-</td>
<td>20</td>
</tr>
<tr>
<td>Cash Donations</td>
<td>$794</td>
<td>$0</td>
<td>$4,792</td>
<td>$1,467</td>
</tr>
<tr>
<td>Number of Projects</td>
<td>1</td>
<td>-</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Total Donations</td>
<td>$18,439</td>
<td>$32,720</td>
<td>$4,792</td>
<td>$18,700</td>
</tr>
<tr>
<td>Number of Projects</td>
<td>15</td>
<td>5</td>
<td>2</td>
<td>22</td>
</tr>
<tr>
<td>Total Number of Units</td>
<td>64</td>
<td>25</td>
<td>24</td>
<td>113</td>
</tr>
<tr>
<td>Total Tax Credits Awarded⁵</td>
<td>$885,065</td>
<td>$613,500</td>
<td>$86,250</td>
<td>$1,584,815</td>
</tr>
<tr>
<td>Average Per Unit</td>
<td>$13,829</td>
<td>$24,540</td>
<td>$3,594</td>
<td>$14,025</td>
</tr>
</tbody>
</table>

⁴ Figures in the table indicate the total donations for all projects divided by the number of units.
⁵ Total Number of Projects for Rehabilitation and for All properties do not equal the sum of projects receiving property donations and projects receiving cash donations because one project received both a property and a cash donation.
⁶ Total Tax Credits Awarded represents the total credit amount allocated for the five-year period. Recipients had the option to use and carryover credits at their discretion, subject to certain limits on total credits used per year, as set forth by the New Hampshire State Legislature.
their donations to the NHCDFA program, donors received tax credits that could be used and carried over into the next year, as needed, for up to five years. There was also an annual limit of $200,000 in NHCDFA program tax credits that could be used per donor per year. Investors in the LIHTC, however, received an allocation of tax credits that could be used for 10 years.

Once approved for the program, investors in the LIHTC project are at greater risk of losing their stream of tax credits. Should a property at any time during the compliance period fail to qualify as a LIHTC project, tax credits already used by investors may need to be rebated back to the U.S. Treasury. Of course, as an investor in the LIHTC project, they may also receive property income, and there is ample evidence in studies of LIHTC projects that investors experience generous returns. Donors to the NHCDFA program have no motivation to further deal with a project once the cash or property donation is completed. It is up to the nonprofit housing organization to maintain compliance with program rules of affordability or risk loss of the property to the NHCDFA.

Characteristics of the donors and the donating process are distinctly different between the LIHTC program and the NHCDFA program. The LIHTC sponsors interviewed noted a variety of investor sources. One sponsor noted they initially used a syndicator from Massachusetts, but now use one in-state financial institution per project. Another used an investment group located in California. Yet another source of tax credit proceeds was a special tax credit fund set up by an investment banking firm. In this arrangement, the investment bank absorbed any and all syndication costs.

All of the donors to the NHCDFA program were located in New Hampshire, a necessity to take advantage of the tax credits. By design, this program sought to involve New Hampshire business in community development needs. While it increases the
potential for valuable, local collaborations, it does mean a much smaller pool of potential donors than is available through the LIHTC. With the LIHTC, New Hampshire sees the additional financial benefit of importing funds from outside the state.

The NHCDFA and the NHHFA

Both the NHCDFA and the NHHFA had substantial roles in the administration of the tax credit programs. Their roles were also very similar, differing only by the scale of the programs and the amount of certification needed to manage and comply with program rules. The NHCDFA program had a simple, efficient application process, where applications were received and reviewed on a first come, first serve basis. Until the ability to issue tax credits was revoked, the NHCDFA seemingly had no limit on the amount of state tax credits it could award. New Hampshire’s LIHTC program does have a limited number of available tax credits, and the allocation plan set forth by the NHHFA carefully spells out an application process for the tax credits that is done in three rounds, with three phases, and with many required compliance and certification forms to complete. The allocation plan also explains the scoring system by which applications will be judged.

For both agencies, developing housing through the tax credit program was not their main focus. The tax credit was, for a while, the NHCDFA’s only active program and the only mechanism by which the NHCDFA could receive income. Approved projects focused on community development, of which housing was considered one part. Other projects focused on economic development, job creation, and capacity building within community-based nonprofit organizations. This agency’s strength lies in its ability to support community projects and local nonprofit organizations.
The NHHFA administers numerous other programs in support of financing and developing affordable housing. Their programs provide extensive support for housing and other housing services throughout the state, including the administration of federal housing programs. In addition to housing finance, the agency also serves as the housing authority for the state. The expertise in housing finance found within the NHHFA certainly helps the agency in managing the LIHTC allocation and monitoring program.

Financial Structure

Financing is the key feature of the tax credit programs. Yet, it is difficult to compare the financial structures of the NHCDFA tax credit projects and the LIHTC projects in New Hampshire due to the lack of available data on the LIHTC projects.

Donations/Tax Credit Proceeds and Syndication Costs

As indicated earlier, the few sponsors of New Hampshire LIHTC projects that provided data for this study indicated that tax credit proceeds per unit were from $10,000-$40,000. The donations in the NHCDFA program totaled $18,700 per unit. These per unit proceeds and donations represent the full range of affordable rental housing projects - including acquisition, rehabilitation, and new construction - undertaken through both tax credit programs.

A common criticism of the LIHTC program is the effect of selling or syndicating tax credits. A 1989 study of 19 public real estate partnerships offerings that used the low income housing tax credits found that on average, these front-end costs were 26.5% of the partnership equity raised from the LIHTC. The study looked at front-end

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20 These front-end costs included selling commissions, organizational and offering expenses, acquisition expenses, and acquisition fees.
costs incurred with 48 other residential and commercial/residential public real estate partnerships offerings. Front-end costs for the other residential offerings averaged 20.9% of partnership’s equity, and for commercial/residential offerings averaged 21.6% of partnership’s equity.

Syndication costs reduce the amount of funding actually put into the development projects. While there are some guidelines to help reduce the effect of syndication costs, the New Hampshire LIHTC projects studied here indicated that they had very low to no syndication costs. This is done by using only one investment source and finding this source on their own without the assistance of a syndicator. In another case, an investment bank that had set up a special tax credit fund absorbed all syndication costs. It is possible that the projects reporting data here did incur more significant front-end costs but did not report these as syndication costs because project sponsors did not use syndicators to help market available tax credits.

In the NHCDFA program, it could be argued that the NHCDFA fees were syndication costs. Essentially, the NHCDFA charged a 15-20% fee to complete the donation and award of the tax credit. Then again, the NHCDFA fee could also be seen as a way to acquire property at a deep discount.

Sources and Uses of Funds

With the larger development projects through the LIHTC program, one could expect higher costs and the need not just more funds, but more funding sources. From the available data pool, project sponsors noted that in addition to the tax credit proceeds, two or three other sources of funds were used. One source was always a private, conventional loan. Other projects utilized sponsor equity and CDBG funds.
NHCDFA projects similarly used on average two other sources of funds, including grants and loans. Amounts of funding were considerably lower.

Development costs per LIHTC unit ranged from $45,000-74,000. Again, the limits of this data makes it difficult to make generalizations regarding project costs. If anything, it illustrates the variety of rehabilitation and construction undertaken through the LIHTC program in New Hampshire. Total development costs per unit in the NHCDFA program averaged just over $41,000.

Tax Credits

The annual allocation of low income housing tax credits could be used for a period of ten years. The tax credits awarded through the NHCDFA program could be used all at once in one year or spread and used within five years. Depending on when these tax credits were used, the donation would cost donors from 5.6-25.0% of the donation.\footnote{This calculation does not consider the additional financial incentives to make donations through the NHCDFA program discussed in Chapter 3.}

From 1992-1994, donors and investors were awarded an average of $3,166 in annual tax credits per LIHTC unit. If the total $14,025 in tax credits per NHCDFA program unit were used evenly for five years, the annual allocation would be $2,805. Discounting the tax credits at 5.2%,\footnote{The discount rate used for the federal government is assumed to be substantially lower than for private investors. In James E. Wallace's article, "Financing Affordable Housing in the United States," from Housing Policy Debate, Volume 6, Issue 4, 5.2% was used as a federal discount rate, and 16% was used as the discount rate for private investors in the LIHTC program.} the cost of the NHCDFA tax credit to New Hampshire was $12,077 per unit. For the LIHTC, the cost of the tax credits to the federal government was $24,214 per unit. Thus, from the available data, it appears that from 1992-1994, the LIHTC was twice as costly to government revenues than the NHCDFA tax credit per unit.
Many factors can begin to explain these cost differences, including the inability to account for the quality of units developed in each program. Units developed through the LIHTC were primarily new construction, and units developed through the NHCDFA program were primarily rehabilitation projects. Low income housing tax credits were calculated based on certain building acquisition and construction costs, and the NHCDFA tax credits were calculated based on donation value. New construction projects are generally more costly than rehabilitation, and the donated properties chosen for rehabilitation had appraisal values that reflected the need for building improvements. Thus, the units developed through the LIHTC program were newer and more expensive, and this is reflected through the tax credits awarded per unit in both programs.

**Program Goals and Outcomes**

For the projects studied here in both the NHCDFA tax credit program and the LIHTC program in New Hampshire, the goal was to develop, by preservation or creation, affordable housing for low and moderate income households. For both programs, completing projects often required securing additional funding other than what was raised through the tax credit process. Of course, to obtain the tax credits, there had to be at least some preliminary commitments from funding sources, whether for cash equity or for debt funds, to show the viability of the proposed project.

It is the time it takes to secure the additional funding that hinders the development process, and this issue is common to projects in both programs. Acquisition-only projects in the NHCDFA program were up and operational very quickly, but they did not need additional funding than what was available through the NHCDFA program. The rehabilitation projects took a little longer, in part due to the
nature of doing any construction and rehabilitation work. The new construction work planned in the NHCDFA is yet to be completed, and delays are an obvious cost issue for any construction project.

In the LIHTC program in New Hampshire, one of the owners of a number of LIHTC projects noted that it typically takes two years for a new construction development to be completed. It takes 18 months to get all the financing in place and 5 months to do the construction. For this reason, many of the LIHTC projects that were awarded their tax credits between 1992-1994 are not yet operational. Through the NHHFA’s LIHTC recipient list, a number of projects keep returning for more tax credits in subsequent years. For whatever reasons, it implies that the projects are not yet completed, and that additional equity is needed to complete these projects.

Another issue to consider when looking at these programs is to assess how well the proposed projects are serving or meeting the need for affordable housing. It is unlikely to be meeting the need. To get a gauge for how well the proposed projects are serving the need, one can examine the geographic spread of units, given the demographic characteristics of the areas. Table 4-4 shows the median income of New Hampshire’s counties, a calculation of potential monthly rent per unit, and the distribution of units planned through each program. The clustering within a county is due mainly to the primary area covered by the project sponsors. Projects in both programs tended toward the counties with higher median incomes. These counties are also the more populated areas of the state. Although both programs are not serving the counties with the lowest median incomes, they are still serving the need for affordable housing. It is likely that they are serving the areas with the largest numbers of low income households.
<table>
<thead>
<tr>
<th>County</th>
<th>Median Household Income (1989)</th>
<th>60% of Median Household Income</th>
<th>Monthly Rent (30% of Income)</th>
<th>NHCDFA Projects/Units</th>
<th>NH LIHTC Projects/Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coos</td>
<td>25,897</td>
<td>15,538</td>
<td>388</td>
<td>-</td>
<td>1/28</td>
</tr>
<tr>
<td>Carroll</td>
<td>28,145</td>
<td>16,887</td>
<td>422</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sullivan</td>
<td>29,053</td>
<td>17,432</td>
<td>436</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Grafton</td>
<td>30,065</td>
<td>18,039</td>
<td>451</td>
<td>5/19</td>
<td>2/50</td>
</tr>
<tr>
<td>Belknap</td>
<td>31,474</td>
<td>18,884</td>
<td>472</td>
<td>3/13</td>
<td>1/27</td>
</tr>
<tr>
<td>Cheshire</td>
<td>31,648</td>
<td>18,989</td>
<td>475</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Strafford</td>
<td>32,892</td>
<td>19,735</td>
<td>493</td>
<td>4/17</td>
<td>1/123</td>
</tr>
<tr>
<td>Merrimack</td>
<td>35,801</td>
<td>2,1481</td>
<td>537</td>
<td>2/20</td>
<td>4/142</td>
</tr>
<tr>
<td>Hillsborough</td>
<td>40,404</td>
<td>24,242</td>
<td>606</td>
<td>8/44</td>
<td>10/150</td>
</tr>
<tr>
<td>Rockingham</td>
<td>41,881</td>
<td>25,129</td>
<td>628</td>
<td>-</td>
<td>2/93</td>
</tr>
</tbody>
</table>

* Source: 1990 U.S. Census.

In the 1996 Qualified Allocation Plan for New Hampshire’s low income housing tax credits, one criteria by which the proposed projects are judged is location, specifically by county. The point system is:

- Coos, Cheshire, Strafford Counties: 10 points
- Grafton, Carroll, Hillsborough, Sullivan Counties: 8 points
- Belknap, Merrimack, Rockingham Counties: 6 points

In the unlikely event a project were to score the maximum number of points within each category, their score would be 170. Projects need a minimum of 50 points to be qualified to receive the low income housing tax credits. Thus, the effect of the location factor in the scoring system is not great, but it gives another indication of affordable housing need by county. Table 4-5 shows the distribution of projects and units by these location...
categories. Both programs had some difficulty in reaching the counties with the perceived highest need for affordable housing (Coos, Cheshire, and Strafford). There appears to be a need to either find project sponsors to develop in these areas, or for additional subsidies to make housing in those areas both affordable and viable.

Table 4-5
Production by NH LIHTC Location Categories (1992-1994)

<table>
<thead>
<tr>
<th>County</th>
<th>NHCDFA Projects/ Units</th>
<th>NH LIHTC Projects/ Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coos, Cheshire, Strafford</td>
<td>4/17</td>
<td>2/151</td>
</tr>
<tr>
<td>Grafton, Carroll, Hillsborough, Sullivan</td>
<td>13/53</td>
<td>12/200</td>
</tr>
<tr>
<td>Belknap, Merrimack, Rockingham</td>
<td>5/43</td>
<td>7/252</td>
</tr>
</tbody>
</table>
CHAPTER 5
CONCLUSION

The purpose of pursuing this research was to examine the experience of the New Hampshire Community Development Finance Authority Investment Incentive Program and its efforts toward developing affordable rental housing. The subset of NHCDFA program projects studied here represents one-quarter of all projects undertaken through the program, but only accounts for 7% of the donations taken in through the NHCDFA. The remaining projects focused on economic development, job creation, capacity-building, and other housing-related activities. Of the 22 affordable rental housing projects, 15 were rehabilitation projects, 5 were acquisition-only projects, and 2 were new construction. Each project developed, on average, five units of affordable housing.

The research questions that guided the thesis sought to gauge the effectiveness of the NHCDFA program, to understand how the NHCDFA program compared with the use of federally-sponsored low income housing tax credits, and to determine program elements that needed to be considered before initiating a state tax credit program for affordable rental housing. The topics for analysis included program processes, project financial structures, and overall program goals and outcomes. Key findings from the thesis are described below.

The NHCDFA Program Experience

The main goal for these projects was to develop affordable rental housing. The NHCDFA program did, however, have some other important outcomes. The NHCDFA program provided needed support for the state’s small nonprofit housing organizations by helping them build organizational capacity. The nonprofits who sponsored projects
through the NHCDFA tax credit program were relatively new and inexperienced, and their NHCDFA projects were some of the first projects undertaken by these organizations. Through the NHCDFA program, these nonprofits started and expanded their property portfolios, building property management experience. With the NHCDFA’s power to authorize state tax credits revoked, some of the NHCDFA project sponsors have gone on to develop larger projects using low income housing tax credits.

Not only did the NHCDFA program offer a valued opportunity for these organizations to acquire properties, but it also provided additional financing assistance to facilitate project development. The financing assistance was by way of lowered and mortgaged NHCDFA program fees. Although properties donated through the NHCDFA program were offered to nonprofits at 15% of appraised value, this price was still too high for some nonprofits to pay the entire fee upfront. The NHCDFA program allowed project sponsors to negotiate lower NHCDFA fees. For half of the projects, the NHCDFA fee was negotiated to be partially paid through a no interest mortgage. The terms of these mortgages were typically that about one quarter of the NHCDFA fee was to be paid upfront, and the rest was to be paid within 30 years by taking 25% of the project’s net operating income. These lowered fees helped assure the viability and affordability of the housing development projects.

The NHCDFA program also helped staff of the nonprofits to initiate contacts within New Hampshire’s banking and business communities. While these nonprofits were able to acquire properties, the donor banks were also able to get rid of their nonperforming properties. The properties were multifamily buildings that had been foreclosed upon in recent months and were unable to be sold in the weak multifamily housing market. Through the property donations, the NHCDFA program assisted New Hampshire banks to recover from the effects of the recession.
The LIHTC vs. the NHCDFA Program

Both the federally-sponsored LIHTC and the NHCDFA program utilized the incentive of a tax credit to raise equity for affordable housing development. From 1992-1994, when the NHCDFA had the authority to award tax credits, New Hampshire’s allocation of low income housing tax credits were awarded to 21 projects supporting over 600 units of affordable rental housing. The 22 NHCDFA program projects that only developed affordable rental housing supported 113 units.

The LIHTC supported larger projects and more housing units, but those projects also had access to a larger pool of investors. Project sponsors who provided information on the projects that received low income housing tax credits noted that tax credit proceeds came from a variety of sources, including in-state financial institutions, an investment group in California, and through a special tax credit fund set up by an investment banking firm. Donors to the NHCDFA program had to be in-state institutions and businesses who could take advantage of the award of state tax credits.

A limited amount of financial data was available on the LIHTC projects. Available data included the amounts of federal tax credits awarded through New Hampshire’s LIHTC allocation from 1992-1994. Data was also available on the amounts of state tax credits awarded through the NHCDFA program. Using present value calculations, the cost to the federal government of the stream of low income housing tax credits per unit was twice that of the cost to the New Hampshire state government of the stream of tax credits per unit in the NHCDFA program. These calculations, however, do not account for any differences in the quality of the units produced.
The LIHTC program has a much more extensive set of program rules and regulations, but project sponsors in both programs have indicated that once one project was completed, it served as a model by which to structure other projects. The less complicated the project, the quicker the housing was in place and operational. Thus, the NHCDFA program’s acquisition-only projects, requiring no rehabilitation or construction work nor any additional outside funding, were quickly operational. Both programs appear to be providing affordable housing to similar areas of the state. Looking at data by county, these areas do not have the lowest median incomes but are the more populated areas of New Hampshire, where the need for affordable housing may be greater.

Program Replication

A final goal of this thesis was to reflect on elements of the NHCDFA program experience to consider before replicating a tax credit program for affordable housing in other states. When considering replicability, it is important to keep in mind that the NHCDFA program’s goals were not only to develop affordable housing, but to promote, through financing, community development in distressed areas of the state. Had the program only focused on housing and affordable housing development, it may have produced more housing and it may have developed additional mechanisms and services to support nonprofit housing development. Still, much can be learned from the experiences in this program.

The importance behind considering the replication of this program in other states is due to the ongoing threat that the LIHTC, the dominant mechanism used in affordable housing development since the late eighties, is likely to be eliminated in the coming years, and it is unlikely that the federal government would provide any kind of direct subsidy
in its place. If tax credits are the best mechanism to attract private equity, then states may need to resort to a state tax credit program to increase the supply of affordable housing. Because tax credits have become popular among donors and investors, a state will need to carefully assess the impact a tax credit program can have on general revenues. The projects undertaken through the NHCDFA program cost the state by way of lost tax revenue an average of just over $14,000 per unit of housing developed, or about $2,800 per unit per year for five years. Low income housing tax credits awarded during the same time period the NHCDFA program was in operation averaged just over $3,100 per unit per year for ten years. Despite lower annual costs in tax credits, the overall price was too high for the New Hampshire general revenue fund and led to the eventual downfall of the NHCDFA program.

The program provision to calculate the tax credits at 75% of the donation value was a holdover from a previous program to raise funds for the NHCDFA. Other states' investment incentive programs for community development have offered tax credits worth 50% of donation, which were typically in the form of cash. The 75% tax credit in New Hampshire was especially high and troublesome because of the state's limited tax base. New Hampshire collects no personal income tax. Had some alternate program rules for tax credit calculation been devised, it is possible that the program would be operational today.

The NHCDFA program had other important features worth noting for other state programs. The NHCDFA was able to meet its legislative mandate of fostering housing and community development programs in New Hampshire. The program enabled businesses and others in the private sector to help address community needs. Most

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23 This refers specifically to state run Neighborhood Assistance Programs. Pennsylvania first implemented a state tax credit program for community development in 1967. Other states that followed this program model included Indiana, Missouri, Delaware, Michigan, Florida, Virginia, and Wisconsin.
importantly, it allowed relatively new and inexperienced nonprofit housing organizations to start and expand affordable rental housing property portfolios. With this experience, some of these NHCDFA project sponsors were able to utilize the federally-sponsored LIHTC program. With regard to the nonprofit housing organizations, it appears that the NHCDFA program was not so much an alternative to producing housing with low income housing tax credits, but rather a complementary program that helped prepare nonprofits for participation in the LIHTC allocation and development process.

The most effective processes undertaken through the NHCDFA program were those that involved a property donation. The forces behind the property donations included a depressed economy, a very weak market for sales of multifamily housing, and an abundant supply of foreclosed properties. The combination of these factors left the state legislature eager to enlist the help of private enterprise in developing projects to promote housing and employment opportunities, and in turn, increasing New Hampshire’s tax base. The legislation that gave tax credit granting ability to the NHCDFA did not define “donation,” but banks soon interpreted it as not only cash, but properties. It was a positive experience for all involved in the donation and tax credit award process, with the exception of the state tax collectors. Nonprofits acquired property for 15% of property value. Donors received tax credits for 75% of property value, plus they rid themselves of a nonperforming property. The NHCDFA received fees worth 15% of the donation and helped fulfill their mandate to foster community development. Low income families saw increased housing opportunities.

True, the recession provided some extenuating circumstances in the economy that led to the NHCDFA program’s successes. Other states may find themselves with an oversupply of nonperforming, multifamily housing properties. If not through a similar
recession, other circumstances may lead to overbuilding or an abundance of abandoned residential or other buildings. The incentive of a tax credit for donating these properties in support of affordable housing development is worth considering. There are other reasons to consider a tax credit besides to increase the supply of affordable housing. While the acquisition-only projects were the simplest and quickest projects to complete, the NHCDFA’s rehabilitation projects were likely to have had some other positive outcomes not examined here. The NHCDFA program, in trying to support job creation, also factored in employment opportunities when approving housing and community development projects. The rehabilitation projects supported construction jobs for New Hampshire residents.

The LIHTC program also had positive features that should be considered when designing a state tax credit program. Despite the long and detailed qualified allocation plan, the certification procedures and scoring criteria really help to define the program and the program goals. This program also has incentives for the investors to stay involved with the project to assure affordability. Because investors can be from outside the state, the pool of available equity for projects is increased. This helps increase funding and hopefully, the number units produced. Of course, this option of out of state financiers is not available to state tax credit programs since the investors would be unable to take advantage of the state tax credits.

There are still questions of financial efficiency in using tax credits to fund projects. The cost of the tax credit to the government can end up being much more than the equity brought into the project. Before terminating an investment incentive tax credit program solely for financial inefficiency, there should be an understanding of the nonquantifiable benefits of the program. Programs like the NHCDFA tax credit program
can reduce the perceived financial risks in investing or donating for social good, increase social capital, and foster relationships between the private sector and community groups. If these relationships should continue, the nonprofit has access to a wide range of diverse resources, both human and financial. What is needed from the government is the initial incentive to start the collaborative process.
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