LIVE webcast

Advanced Financial Modeling Concepts for Multifamily LIHTC Projects

Tax & Accounting Essentials for Developers, Syndicators & Investors

BIRCH ISLAND
REAL ESTATE CONSULTING, LLC

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Before we get started…

- Training materials
- Go to Webinar question panel
- Six Attendee Polls
- We welcome your feedback and follow-up questions
- CPE certificate

3

Learning Objectives

- Relationship of underwriting model to the Life Cycle of LIHTC Project
- Identifying the key exhibits in a financial model and how they relate to project Life Cycle
- Understand how changes in key assumptions affect the tax benefits and overall economic strength of the project
- Realize the importance of cash flow analysis and the waterfall provisions in the underwriting process
- How the combining of different federal and state credits can enhance the economics of a project
- Understand the importance of estimating first year credits and how that can effect the IRR of a project

4

Overview of LIHTC Project Life Cycles

6

Overview

Using the financial underwriting model as a tool throughout the entire life cycle of the Section 42 project allows the ability to predict and emphasize potential pitfalls and opportunities

7

Key Original Assumptions and Basic Information

- One building
- 100 units
- $12,448,000 total development costs
- $10,274,470 eligible costs
- 9% credits- $751,773
- Federal Historic Tax Credits - $524,030
- Equity amount - $7,612,713
- Conventional financing

Revised Assumptions

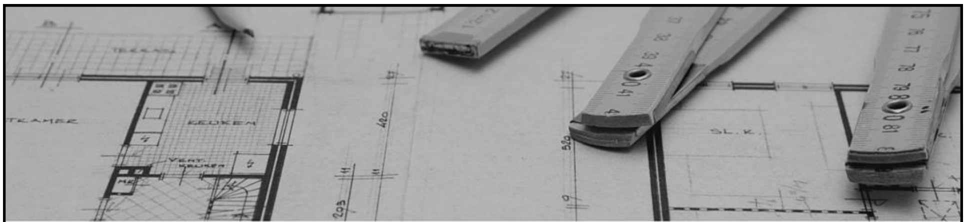
- Timing of equity contributions
- Deferred developer fee issues
- Tenant certification
- Use of other credits and how they affect basis
- Capitalization of project
- Use of Reserves
- Rent Compression

9

Planning

- Type of Construction
- Combining Credits
- QAP requirements
- Related party
- General market influences
- Potential investors

10



Planning

- Timing of capital contributions
- Potential for other credits and effect on LIHTC basis

EQUITY TIMING BASELINE

Capital Contribution Schedule

Milestone Description	Manual Override Date	Contribution Date	Partner	Contribution Amount	Contribution Percentage	Contribution Amt	Amount of Developer Fee paid	Amount of Reserves funded	Reserve Funded from Equity
Partnership Closing		7/31/2016	Equity Fund	$ -	20%	$ 1,522,543			
50% Construction Completion	3/1/2017	3/1/2017	Equity Fund		20%	$ 1,522,543			
Construction Completion	6/1/2017	6/1/2017	Equity Fund		40%	$ 3,045,085			
100% Occupancy of 1st Building	7/1/2017	7/1/2017	Equity Fund		20%	$ 1,522,543			
1 Year After Stablization		7/31/2018	Equity Fund			$ -			
2 Year After Stablization		7/31/2019	Equity Fund			$ -			
						$ -			
						$ -			
						$ -			
						$ -			
						$ -			
						$ -			

Microsoft Excel

IRR for Equity Fund is 6.38%
Upper Tier IRR for Equity Fund is 6.38%

OK

IRR baseline – 6.38%

EQUITY TIMING TWO

Capital Contribution Schedule

Milestone Description	Manual Override Date	Contribution Date	Partner	Contribution Amount	Contribution Percentage	Contribution Amt	Amount of Developer Fee paid	Amount of Reserves funded	Reserve Funded from Equity
Partnership Closing		7/31/2016	Equity Fund	$ -	20%	$ 1,522,543			
50% Construction Completion	3/1/2017	3/1/2017	Equity Fund		20%	$ 1,522,543			
Construction Completion	6/1/2017	6/1/2017	Equity Fund		30%	$ 2,283,814			
100% Occupancy of 1st Building	7/1/2017	7/1/2017	Equity Fund		20%	$ 1,522,543			
1 Year After Stablization		7/31/2018	Equity Fund		5%	$ 380,636			
2 Year After Stablization		7/31/2019	Equity Fund		5%	$ 380,636			
						$ -			
						$ -			
						$ -			
						$ -			
						$ -			
						$ -			
						$ -			

Microsoft Excel

IRR for Equity Fund is 6.61%
Upper Tier IRR for Equity Fund is 6.61%

OK

IRR baseline – 6.38%

Adjusted IRR – 6.61%

Approx. 3.6% increase

EQUITY TIMING THREE

Capital Contribution Schedule

Milestone Description	Manual Override Date	Contribution Date	Partner	Contribution Amount	Contribution Percentage	Contribution Amt	Amount of Developer Fee	Amount of Reserves	Reserve Funded from
Partnership Closing		7/31/2016	Equity Fund	$ -	20%	$ 1,522,543			
50% Construction Completion	3/1/2017	3/1/2017	Equity Fund		20%	$ 1,522,543			
Construction Completion	6/1/2017	6/1/2017	Equity Fund		20%	$ 1,522,543			
100% Occupancy of 1st Building	7/1/2017	7/1/2017	Equity Fund		20%	$ 1,522,543			
1 Year After Stablization		7/31/2018	Equity Fund		10%	$ 761,271			
2 Year After Stablization		7/31/2019	Equity Fund		10%	$ 761,271			
						$ -			
						$ -			
						$ -			
						$ -			
						$ -			

Microsoft Excel

IRR for Equity Fund is 6.87%
Upper Tier IRR for Equity Fund is 6.87%

OK

IRR baseline – 6.38%

Adjusted IRR – 6.87%

Approx. 7.7% increase

Additional types of credits

Tax Credit Analysis
NTV, LP
New Town Village

Calculation of Credits

	Acquisition	Rehab / New Construction	Total Federal LIHTC	Federal Historic
Total Basis	5,316,879	5,481,621	10,798,500	2,620,150
Less: Federal Grants	-	-	-	-
Less: 50% of Energy Credits		-	-	
Less: Historic Credits		(524,030)	(524,030)	
Less: Deferred Development Fee	-	-	-	
Less: Other Ineligible Items	-	-	-	-
Less: 45L Credit		-	-	-
Net Eligible Basis	5,316,879	4,957,591	10,274,470	2,620,150
DDA / QCT Basis Boost		130.00%		
Applicable Fraction	100.00%	100.00%		
Qualified Basis	5,316,879	6,444,869	11,761,748	2,620,150
Tax Credit Rate	3.23%	9.00%		20.00%
Annual Credits	171,735	580,038	751,773	524,030
Calculated Credits	1,717,352	5,800,382	7,517,734	524,030
Reservation Letter Credits			-	
Actual Credits			7,517,734	524,030

Additional equity: $471,627 assuming that we have excess basis

Deferred Developer fee -reduce permanent mortgage to $4,635,288

Waterfall - Forecast
NTV, LP
New Town Village

		2017	2018	2019	2020	2021	2022	2023	2024	2025
	Distributable Cash Flow	**53,112**	**28,175**	**29,159**	**29,976**	**30,629**	**31,108**	**31,406**	**31,512**	**31,417**
1	Deferred Developer Fee	(53,112)	(28,175)	(29,159)	(29,976)	(30,629)	(31,108)	(17,673)	-	-
2	Asset Management Fee	-	-	-	-	-	-	(13,733)	(30,728)	(6,334)
3	Incentive Management Fee	-	-	-	-	-	-	-	(705)	(22,575)
		-	-	-	-	-	-	-	79	2,508

Distributions

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Equity Fund	-	-	-	-	-	-	-	(79)	(2,508)
General	-	-	-	-	-	-	-	(0)	(0)
	-	-	-	-	-	-	-	-	-

In this example, it takes over 6 years in order to pay off the deferred developer fee when there is $219,834 of deferred fees

17

Deferred Developer fee -reduce permanent mortgage to $4,635,288

Waterfall - Forecast
NTV, LP
New Town Village

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Distributable Cash Flow	**26,977**	**23,025**	**23,855**	**24,512**	**25,001**	**25,312**	**25,436**	**25,363**	**25,083**	**24,588**	**23,864**
1	Deferred Developer Fee	(26,977)	(23,025)	(23,855)	(24,512)	(25,001)	(25,312)	(25,436)	(25,363)	(25,083)	(9,398)	-
2	Asset Management Fee	-	-	-	-	-	-	-	-	-	(15,190)	(23,864)
3	Incentive Management Fee	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-

Distributions

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Equity Fund	-	-	-	-	-	-	-	-	-	-	-
General	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-

Based upon the current revenue and expenses, it takes over 6 years to pay off deferred developer fee.
If utilities increased by $5,000 per year and the rents were limited to 90% of maximum LIHTC rents, the deferred developer fee would not be paid off until year 10.
Care needs to be taken to make sure that the revenue and expense projections are realistic.

18

Development

- Type of financing
- Section 42 reporting
- Projections
- Yield and credit pricing
- Partnership agreement
- Tenant Certification

Development

- Calculation of basis
- Rent assumptions
- Debt service coverage ratio
- Positive cash flow
- First year credit calculation

Calculation of basis

- Eligible versus non-eligible costs
- Construction interest
- Section 266 election
- Imputed interest

21

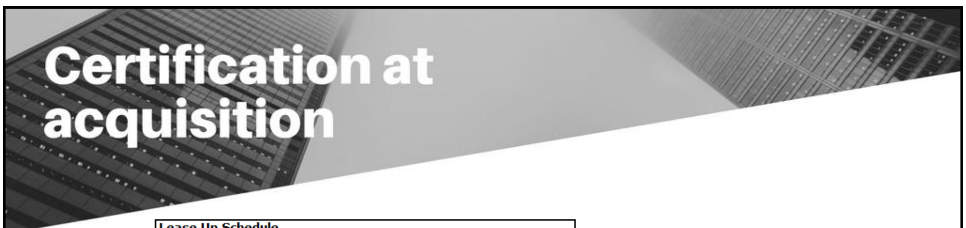
Type of finanacing

- Conventional
- Tax exempt financing
- Soft debt
- Seller financing

22

Tenant certification

- Benefit of certifying tenants at time of **acquisition**
- How does that affect the **first year** credit calculation
- Rents **based upon %** of area median income
- **Stress test** based upon maximum LIHTC rents



Certification at acquisition

Lease Up Schedule
NTV, LP

Projected Certificate of Occupancy Date	1/1/2017			
Projected Date of Full Occupancy	4/30/2017			
LIHTC Units	100			
Market Units	0			
Total Units	100		100	
1st Year Credit Deferral	N			
15 Year Credits	N			
	100	-	100	-
Year	**2017**			
Building #	1		Total	
Type	LIHTC	Market	LIHTC	Market
January	70	-	70	-
February	70	-	70	-
March	80	-	80	-
April	100	-	100	-
May	100	-	100	-
June	100	-	100	-
July	100	-	100	-
August	100	-	100	-
September	100	-	100	-
October	100	-	100	-
November	100	-	100	-
December	100	-	100	-
Manual Override Adjustment	-		-	-
(A) Total	1,120	-	1,120	-
(B) Units in Building	100		100	-
(B) LIHTC Units in Building x 12 Months	1,200		1,200	-
(C) A / B	0.93		1	-
Max Credits	751,773		751,773	
Max Credits Allowed	701,630		701,630	
Full Buildings Only	Y			
Use Excess Basis?	Y			

Microsoft Excel

IRR for Equity Fund is 6.38%
Upper Tier IRR for Equity Fund is 6.38%

OK

Certification at placed in service

Lease Up Schedule
NTV, LP

	1 LIHTC	1 Market	Total LIHTC	Total Market
Projected Certificate of Occupancy Date	1/1/2017			
Projected Date of Full Occupancy	8/31/2017			
LIHTC Units	100			
Market Units	0			
Total Units	100		100	
1st Year Credit Deferral	N			
15 Year Credits	N			
	100	-	100	-
Year	2017			
Building #	1		Total	
Type	LIHTC	Market	LIHTC	Market
January	-	-	-	-
February	-	-	-	-
March	-	-	-	-
April	-	-	-	-
May	-	-	-	-
June	-	-	-	-
July	-	-	-	-
August	100	-	100	-
September	100	-	100	-
October	100	-	100	-
November	100	-	100	-
December	100	-	100	-
Manual Override Adjustment	-		-	-
(A) Total	500	-	500	-
(B) Units in Building	100		100	-
(B) LIHTC Units in Building x 12 Months	1,200		1,200	-
(C) A / B	0.42		0	-
Max Credits	751,773		751,773	
Max Credits Allowed	313,264		313,264	
Full Buildings Only	Y			
Use Excess Basis?	Y			

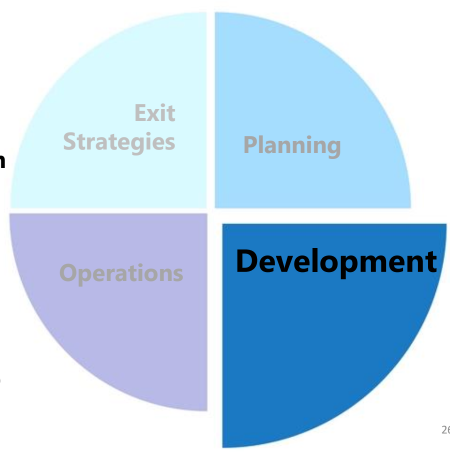
Microsoft Excel

IRR for Equity Fund is 6.01%
Upper Tier IRR for Equity Fund is 6.01%

OK

Stress test

- Rents based upon % of area **median income**
    - Stress test based upon **maximum LIHTC rents**
- Expense projections
    - Accurate expense projections are crucial in the modeling process
- Income and expense projections also affect the DSCR



Rents at maximum LIHTC

Waterfall - Forecast
NTV, LP
New Town Village

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Distributable Cash Flow	**330,822**	**116,485**	**119,505**	**122,398**	**125,169**	**127,810**	**130,311**	**132,665**	**134,863**	**136,896**	**138,754**
1	Asset Management Fee	(5,000)	(5,150)	(5,305)	(5,464)	(5,628)	(5,796)	(5,970)	(6,149)	(6,334)	(6,524)	(6,720)
2	Incentive Management Fee	(293,240)	(100,201)	(102,780)	(105,241)	(107,588)	(109,812)	(111,907)	(113,864)	(115,677)	(117,335)	(118,831)
		32,582	11,134	11,420	11,693	11,953	12,202	12,434	12,652	12,852	13,037	13,203

Distributions

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Equity Fund	(32,579)	(11,133)	(11,419)	(11,692)	(11,952)	(12,201)	(12,433)	(12,651)	(12,851)	(13,036)	(13,202)
General	(3)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
	-	-	-	-	-	-	-	-	-	-	-

27

Rents stressed at 90% of maximum LIHTC

Waterfall - Forecast
NTV, LP
New Town Village

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Distributable Cash Flow	**231,017**	**14,683**	**15,667**	**16,484**	**17,137**	**17,616**	**17,914**	**18,020**	**17,926**	**17,619**	**17,091**	**16,331**
1	Asset Management Fee	(5,000)	(5,150)	(5,305)	(5,464)	(5,628)	(5,796)	(5,970)	(6,149)	(6,334)	(6,524)	(6,720)	(6,921)
2	Incentive Management Fee	(203,415)	(8,580)	(9,327)	(9,919)	(10,358)	(10,638)	(10,749)	(10,684)	(10,432)	(9,986)	(9,335)	(8,469)
		22,602	953	1,035	1,101	1,151	1,182	1,195	1,187	1,160	1,109	1,036	941

Distributions

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Equity Fund	(22,600)	(953)	(1,035)	(1,101)	(1,151)	(1,182)	(1,195)	(1,187)	(1,160)	(1,109)	(1,036)	(941)
General	(2)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
	-	-	-	-	-	-	-	-	-	-	-	-

28

Debt Service Coverage Ratio at 95% of rents

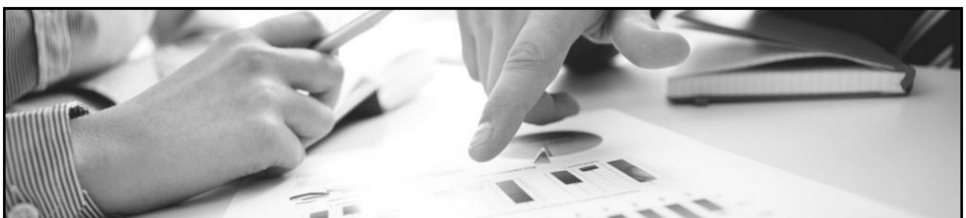
Net Operating Income	403,481	428,982	432,100	435,104	437,999
Operating Reserve	-	-	-	-	-
Replacement Reserve	(36,050)	(37,132)	(38,245)	(39,393)	(40,575)
Other Reserves	-	-	-	-	-
NOI Adjusted for Reserves	367,431	391,851	393,854	395,711	397,425
Interest Income From Reserves	458	952	1,338	1,449	1,573
Withdrawal from Reserve	-	-	-	-	-
Must Pay Debt Service					
Principal Payment	(37,705)	(43,512)	(46,140)	(48,928)	(51,883)
Interest Payment	(248,927)	(269,178)	(266,549)	(263,762)	(260,806)
Total Payment	(286,632)	(312,689)	(312,689)	(312,689)	(312,689)
Debt Service Coverage Ratio	1.28	1.26	1.26	1.27	1.28
Less: Funding Required For Other Permanent Sources	-	-	-	-	-
Distributable Cash Flow	80,799	79,161	81,165	83,022	84,735

29

Debt Service Coverage Ratio at 90% of rents

Net Operating Income	354,659	377,996	380,094	382,058	383,893
Operating Reserve	-	-	-	-	-
Replacement Reserve	(36,050)	(37,132)	(38,245)	(39,393)	(40,575)
NOI Adjusted for Reserves	318,609	340,865	341,849	342,665	343,318
Interest Income From Reserves	458	952	1,338	1,449	1,573
Withdrawal from Reserve	-	-	-	-	-
Must Pay Debt Service					
Principal Payment	(37,705)	(43,512)	(46,140)	(48,928)	(51,883)
Interest Payment	(248,927)	(269,178)	(266,549)	(263,762)	(260,806)
Total Payment	(286,632)	(312,689)	(312,689)	(312,689)	(312,689)
Debt Service Coverage Ratio	1.11	1.09	1.10	1.10	1.10
Less: Funding Required For Other Permanent Sources	-	-	-	-	-
Distributable Cash Flow	31,977	28,175	29,159	29,976	30,629

30



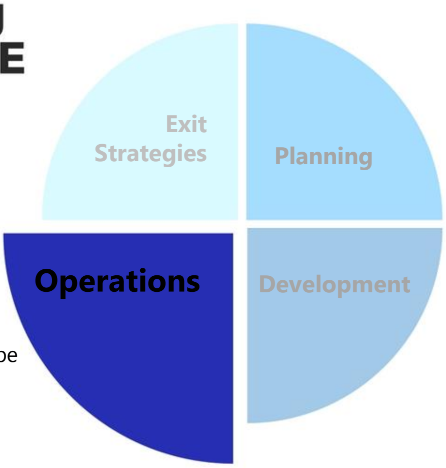
Operations

- Funding of operating deficits
- Monitoring economics of project
- Reserve funding and use of reserves
- Capitalization and methods of depreciation
- Cash flow waterfall/stacking of fees
- Comparison of projections to actual
- Payment of soft debt
- Tracking capital accounts

32

Keys to adjusting depreciation / PPE

- Different methods of capitalization
- Initial capitalization of the project.
- Will project use **ADS** or **MACRS** method of depreciation?
- Will reserves be **capitalized** or **expensed**?
- How often will reserve withdrawals be used to fund repairs?



33

Depreciation baseline - 100% building

Depreciation Assumptions

Construction Contract Allocation Method	Estimated Percentage	Building Estimated %, if Applicable	100.00%
Other Soft Costs Allocation Method	Estimated Percentage	Site Improvements Estimated %, if Applicable	0.00%
Developer Fee Allocation Method	Estimated Percentage	Personal Property Estimated %, if Applicable	0.00%
Goto Depreciation Detail		Goto Amortization Details	
Bonus Depreciation Percentage	0.00%	Goto Initial Capitalization (Asset Breakout Override)	
266 Election to Include Capitalize Eligible Expenses during Leasup		Avoided Interest Rate	
Acquisition Basis Placed in Service Date	7/31/2016		
Acquisition Basis - Place in Service with New Constr/Rehab - Override			

Depreciation Assumptions

Microsoft Excel

IRR for Equity Fund is 6.47%
Upper Tier IRR for Equity Fund is 6.47%

OK

Baseline IRR - 6.47%

34

Depreciation - Allocation of PPE

Depreciation Assumptions

Construction Contract Allocation Method	Estimated Percentage	Building Estimated %, if Applicable	75.00%
Other Soft Costs Allocation Method	Estimated Percentage	Site Improvements Estimated %, if Applicable	15.00%
Developer Fee Allocation Method	Estimated Percentage	Personal Property Estimated %, if Applicable	10.00%
Goto Depreciation Detail		Goto Amortization Details	
Bonus Depreciation Percentage	0.00%	Goto Initial Capitalization (Asset Breakout Override)	
266 Election to Include Capitalize Eligible Expenses during Leasup		Avoided Interest Rate	
Acquisition Basis Placed in Service Date	7/31/2016		
Acquisition Basis - Place in Service with New Constr/Rehab - Override			

Depreciation Assumptions

Microsoft Excel

IRR for Equity Fund is 6.80%
Upper Tier IRR for Equity Fund is 6.80%

OK

Baseline IRR – 6.47%

Adjusted IRR – 6.80%

Approx. 5.1% increase

- Cost Segregation Studies
- Analysis of Construction Contract and Cost Certification

Depreciation - ADS rather than MACRS

Depreciation Detail

	Life - GAAP	Life - Tax	Method- GAAP	Method - Tax	Bonus Depreciation	Line Item & Acquisition Costs	Constructic Contract Basis
Building		40	Straight Line	ADS			
Commercial		40	Straight Line	ADS			
Site Improvements		20	Straight Line	ADS			
Personal Property		9	Straight Line	ADS			
Office FF&E		10	Straight Line	ADS			

Depreciation Detail

Initial Capitalization(Asset Breakout Override)

Microsoft Excel

IRR for Equity Fund is 6.05%
Upper Tier IRR for Equity Fund is 6.05%

OK

Baseline IRR – 6.47%

Adjusted IRR – 6.05%

Approx. 6.5% decrease

- 168(h) importance
- Monitoring long-term capital accounts

Actual operating results

Inputs from 8825	2017	2018
Total Income		960,000
Interest Income		
Expenses		
Professional Fees		25,000
Administrative		145,000
Utilities		140,000
Repairs and Maintenance		160,000
Taxes, Insurance, & Reserves		60,000
Other Operating Expenses		45,000
Miscellaneous expense		
Interest :		
Interest - Permanent Loans		312,689
Depreciation		373,580
Other:		
Amortization		11,138
Interest - Developer Fee		
Asset Management Fee		-
Incentive Management Fee		-
Taxable Income (Loss)		
Book Income (Loss)		
Other Schedule K Income / (Deductions)		

38

Exit strategies

- Qualified Contract
- Right of first refusal
- Sale of LP interest
- Sale of property
- Subject to tax issues

39

Tax issues

- 704(b)
- Deferred developer fee
- Forgiveness of debt

40

Sample of 704(b) calculation

Capital and 704(b) Schedule - Equity Fund
NTV, LP
New Town Village

Equity Fund				99.99%	99.99%	99.99%	99.99%			
Year	Beginning Tax Capital	Capital Contributions	Capital Distributions	Federal Historic Credit Adjustment	Federal Energy Credit Adjustment	Income (Loss)	Other Schedule K Income / (Deductions)	Ending Tax Capital	Reallocation of Income (Loss)	Adjusted Ending Tax Capital
2016	$ -	$ 1,234,202	$ -	$ -	$ -	$ -	$ -	$ 1,234,202	$ -	$ 1,234,202
2017	$ 1,234,202	$ 4,936,808	$ -	$ (523,978)	$ -	$ (52,583)	$ -	$ 5,594,449	$ -	$ 5,594,449
2018	$ 5,594,449	$ -	$ -	$ -	$ -	$ (242,797)	$ -	$ 5,351,652	$ -	$ 5,351,652
2019	$ 5,351,652	$ -	$ -	$ -	$ -	$ (234,721)	$ -	$ 5,116,931	$ -	$ 5,116,931
2020	$ 5,116,931	$ -	$ -	$ -	$ -	$ (283,161)	$ -	$ 4,833,770	$ -	$ 4,833,770
2021	$ 4,833,770	$ -	$ -	$ -	$ -	$ (215,101)	$ -	$ 4,618,669	$ -	$ 4,618,669
2022	$ 4,618,669	$ -	$ -	$ -	$ -	$ (204,504)	$ -	$ 4,414,165	$ -	$ 4,414,165
2023	$ 4,414,165	$ -	$ -	$ -	$ -	$ (273,747)	$ -	$ 4,140,418	$ -	$ 4,140,418
2024	$ 4,140,418	$ -	$ -	$ -	$ -	$ (183,065)	$ -	$ 3,957,353	$ -	$ 3,957,353
2025	$ 3,957,353	$ -	$ -	$ -	$ -	$ (255,051)	$ -	$ 3,702,302	$ -	$ 3,702,302
2026	$ 3,702,302	$ -	$ (2,686)	$ -	$ -	$ (351,711)	$ -	$ 3,347,905	$ -	$ 3,347,905
2027	$ 3,347,905	$ -	$ (2,677)	$ -	$ -	$ (246,404)	$ -	$ 3,098,824	$ -	$ 3,098,824
2028	$ 3,098,824	$ -	$ (2,642)	$ -	$ -	$ (239,461)	$ -	$ 2,856,721	$ -	$ 2,856,721
2029	$ 2,856,721	$ -	$ (2,583)	$ -	$ -	$ (349,225)	$ -	$ 2,504,913	$ -	$ 2,504,913
2030	$ 2,504,913	$ -	$ (2,496)	$ -	$ -	$ (225,482)	$ -	$ 2,276,935	$ -	$ 2,276,935
2031	$ 2,276,935	$ -	$ (2,381)	$ -	$ -	$ (217,246)	$ -	$ 2,057,308	$ -	$ 2,057,308
2032	$ 2,057,308	$ -	$ (2,237)	$ -	$ -	$ (340,147)	$ -	$ 1,714,924	$ -	$ 1,714,924
2033	$ 1,714,924	$ -	$ (2,062)	$ -	$ -	$ (196,510)	$ -	$ 1,516,352	$ -	$ 1,516,352
2034	$ 1,516,352	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,516,352	$ -	$ 1,516,352

- A partner's income, loss, deductions, credits & other items are determined in accordance with the partnership agreement or other special allocation.
- Allocations must be consistent with the economic business deal of the partners.

Minimum gain analysis

Minimum Gain Analysis
NTV, LP
New Town Village

Minimum Gain Calculation						
Year	Depreciable Assets & Land	Cumulative Depreciation	Adjusted Basis	Encumbered Reserves	Nonrecourse Liabilities	Total Minimum Gain
2017	$ 10,274,470	$ 358,065	$ 9,916,405	$ -	$ 5,484,009	$ -
2018	$ 10,274,470	$ 731,645	$ 9,542,825	$ -	$ 5,434,117	$ -
2019	$ 10,274,470	$ 1,105,225	$ 9,169,245	$ -	$ 5,381,211	$ -
2020	$ 10,274,470	$ 1,478,804	$ 8,795,666	$ -	$ 5,325,109	$ -
2021	$ 10,274,470	$ 1,852,384	$ 8,422,086	$ -	$ 5,265,617	$ -
2022	$ 10,274,470	$ 2,225,964	$ 8,048,506	$ -	$ 5,202,532	$ -
2023	$ 10,274,470	$ 2,599,544	$ 7,674,926	$ -	$ 5,135,635	$ -
2024	$ 10,274,470	$ 2,973,123	$ 7,301,347	$ -	$ 5,064,698	$ -
2025	$ 10,274,470	$ 3,346,703	$ 6,927,767	$ -	$ 4,989,474	$ -
2026	$ 10,274,470	$ 3,720,386	$ 6,554,084	$ -	$ 4,909,707	$ -
2027	$ 10,274,470	$ 4,093,965	$ 6,180,505	$ -	$ 4,825,121	$ -
2028	$ 10,274,470	$ 4,467,648	$ 5,806,822	$ -	$ 4,735,425	$ -
2029	$ 10,274,470	$ 4,841,228	$ 5,433,242	$ -	$ 4,640,310	$ -
2030	$ 10,274,470	$ 5,214,910	$ 5,059,560	$ -	$ 4,539,449	$ -
2031	$ 10,274,470	$ 5,588,490	$ 4,685,980	$ -	$ 4,432,496	$ -
2032	$ 10,274,470	$ 5,962,172	$ 4,312,298	$ -	$ 4,319,081	$ 6,783
2033	$ 10,274,470	$ 6,335,752	$ 3,938,718	$ -	$ 4,198,814	$ 260,096
2034	$ -	$ -	$ -	$ -	$ -	$ -
2035	$ -	$ -	$ -	$ -	$ -	$ -
2036	$ -	$ -	$ -	$ -	$ -	$ -
2037	$ -	$ -	$ -	$ -	$ -	$ -
2038	$ -	$ -	$ -	$ -	$ -	$ -
2039	$ -	$ -	$ -	$ -	$ -	$ -
2040	$ -	$ -	$ -	$ -	$ -	$ -
2041	$ -	$ -	$ -	$ -	$ -	$ -
2042	$ -	$ -	$ -	$ -	$ -	$ -
2043	$ -	$ -	$ -	$ -	$ -	$ -
2044	$ -	$ -	$ -	$ -	$ -	$ -
2045	$ -	$ -	$ -	$ -	$ -	$ -

Qualified Contract

- Under IRC 42(h)(6)(F), an LIHTC project could become a market-rate project upon the owners' written request and within **one-year period** beginning on the date after the **14th year of the compliance** period if the housing credit agency is unable to find a qualified contract for the acquisition of the low-income portion of the building.
- The **qualified contract price** for the low-income portion of the building may not be less than the applicable fraction of the sum of the **outstanding indebtedness** secured by the building, the adjusted investor equity in the building, and other capital contributions not already reflected, reduced by cash distributions from the project.
- It is important to verify within the partnership documents to determine if more stringent requirements are provided in any agreement or in the laws of the state **where the project is located**.

43

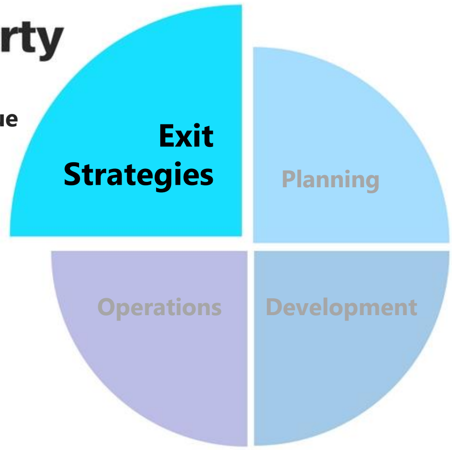
Sale of interest

- **Determining value (FMV)**
  - Cap rate
  - Broker opinion of value
  - Appraisal
- **Restricted reserves**
- **Forced sale provisions**
  - Better negotiation position for investor
- **Transfer taxes**

44

Sale of the property

- **Selling at highest market value**
- **Forgiveness of debt**
  - Mortgage
  - Soft debt
  - Deferred developer fee
- **Nonresident withholding**
- **Transfer taxes**



45

Other items

- Security of the model
- Using the model to analyze actual versus projection
- Importance of a good market study

47

Learning Objectives

~ recap ~

- Relationship of underwriting model to the Life Cycle of LIHTC Project
- Identifying the key exhibits in the model and how they relate to the Life Cycle
- Understand how changes in the key assumptions affect the tax benefits and overall economic strength of the project
- Realize the importance of cash flow analysis and the waterfall provisions in the underwriting process
- How the combining of different federal and state credits can enhance the economics of a project
- Understand the importance of estimating first year credits and how that can effect the IRR of a project

48

Vinnie Viola, MPA, HCCP, is Principal and Founder of Birch Island Real Estate Consulting, LLC. Building on 25 years of broad affordable housing experience, Vinnie's company provides consulting and training services to developers, investors and operators of multifamily housing financed with LIHTC equity. As team leader and senior asset manager with a combined ten years at Boston Financial and Boston Capital, Vinnie participated in hundreds of investment committee discussions on proposed tax credit investments for single- and multi-investor tax credit funds. Through these experiences, Vinnie has an intuitive understanding of the tax credit financial investment model, assumptions that drive investor benefit projections and options to mitigate real and perceived operating and tax credit compliance risks.

Vinnie earned a BA from University of Massachusetts at Boston and a Master of Public Affairs from University of Texas-Dallas. He currently serves on NAHB's Housing Credit Certified Professional Board of Governors and chairs the board's Professional Development subcommittee.

Nancy Morton, CPA – Tax Member Nancy has been in the practice of public accounting for over 28 years, having worked with the international accounting firms of Arthur Andersen and Deloitte & Touche prior to joining Dauby O'Connor & Zaleski, LLC in December of 2001. Nancy is a CPA and a Chartered Global Management Accountant. Nancy specializes in the real estate industry, with a particular focus in partnership and not-for-profit tax compliance matters. Nancy is responsible for the annual preparation and review of hundreds of partnership and not-for-profit tax returns related to multifamily housing communities, as well as funds that invest in those entities.

Nancy has substantial experience with properties financed in part with LIHTC pursuant to IRC Section 42. In addition to the annual tax compliance work on LIHTC properties, Nancy is also involved with the 10% cost certifications required for carryover allocations, final cost certifications required for issuance of form(s) 8609, and arbitrage rebate calculations required for tax-exempt bond financed transactions. Nancy also serves on the technical review committee for a LIHTC syndicator to review the structure and identify regulatory issues applicable to new transactions in which the fund intends to invest.

Nancy is also the partner in charge of the real estate consulting practice for Dauby O'Connor & Zaleski, LLC. In her capacity, she is responsible for spearheading projects regarding sponsor reviews, disposition analysis, due diligence reports and consulting on creating an equity model to analyze the investment of a LIHTC property throughout its economic life.

To obtain accounting

CPE credit

for today's training, please email Jacob T. Buehler

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