


Private Activity Bonds (PAB): A Low Cost Resource with High Community Impact


The contents of this presentation reflect the view of the presenter, not of CML.



About CHFA

- CHFA was established in 1973 by the Colorado General Assembly.
- Not a state agency. No direct appropriations.
- CHFA received authority to do commercial loans in 1982.
- To date, approximately \$17 billion has been raised and invested in Colorado.

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Mission

We strengthen Colorado by investing in affordable housing and community development.


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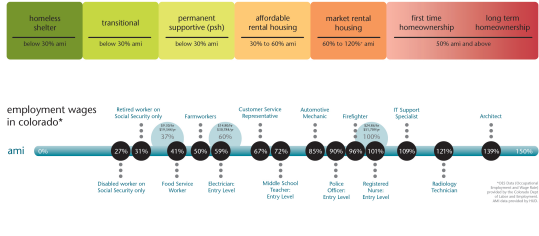
Vision

Everyone in Colorado will have the opportunity for housing stability and economic prosperity.

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chfa housing continuum



The chart illustrates the housing continuum and corresponding employment wages in Colorado. The housing continuum includes categories from homeless shelter to long-term homeownership, with associated AMI (Area Median Income) ranges. Below this, a wage scale shows various professions and their corresponding annual wages, ranging from \$27k for a disabled worker on Social Security to \$150k for an architect.

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CHFA's Work Since 1973

as of 12.31.2017

- \$13.0 billion in Home Finance production with 103,041 customers served with loans or MCCs
- \$2.4 billion in multifamily loan production, with 902 developments consisting of 62,493 units in portfolio
- 61,275 affordable multifamily units allocated Low Income Housing Tax Credits, totaling \$281.1 million
- \$1.2 billion invested in business lending serving 5,037 businesses and directly supporting 63,296 jobs

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Uses for Private Activity Bonds (PABs)

- Affordable multifamily housing
- Mortgage loans for first time homebuyers
- Mortgage Credit Certificates for first time homebuyers
- Qualified Home Improvements (energy efficiency improvements)
- Financing for small manufacturing



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Benefits of PABs

- Income from the investment in the tax-exempt bonds are tax free to the investor
- Investors are willing to take lower yields because of the tax-free income
- Savings can be passed on to the project or borrower in the form of lower interest rates on the loans



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Affordable Rental Housing Landscape

- 1 in 4 Colorado renters spend more than 50% of their income on housing *
- A worker would need to make \$25.07/hour (\$52,160/year/household) to afford a two bedroom unit in Denver (median rent \$1,304) **

- Lack of inventory

*American Community Survey (Census);

** Q3 2017 Vacancy and Rent Survey



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Multifamily Housing Bonds

- Private Activity Bonds (PAB) used to finance affordable privately owned multifamily rental housing
- Project types:
 - New construction
 - Acquisition
 - Acquisition/Rehabilitation



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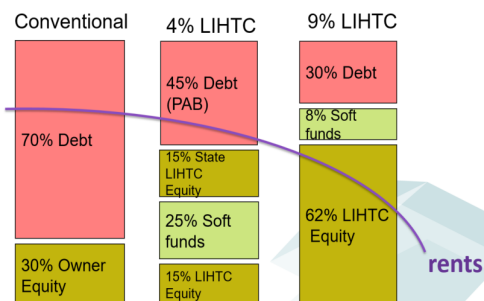
Affordable Housing Financing Tools

- Bank financing
- Credit enhancements
- Soft funds (CDBG, HOME, HOF, HDG)
- Low Income Housing Tax Credits (LIHTC)
 - 4% non-competitive – can be used with PABs
 - 9% competitive- cannot be used with PABs
 - State LIHTC
- Private Activity Bonds



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conventional vs. 4% vs. 9%



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Colorado State LIHTC


- Modeled after federal LIHTC
- Originally created in 2001-02; renewed in 2014
 - \$5 million in annual credit in 2015 & 2016
 - Additional credit for disaster recovery
- Re-renewed in 2016
 - \$5 million available 2016-2018
- 2015-2017 results
 - 4,263 housing units directly supported & 10,496 units indirectly supported
 - Historically, units served \leq 30% AMI, although required to serve \leq 60% AMI
 - \$465 million in new private sector capital



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SB 18-007: Colorado Affordable Housing Tax Credit


- Renames and extends program through 2024
- Continue to pair with 4% non-competitive Federal LIHTC and PAB
- Supported by CML
- Will support much needed:
 - Workforce housing
 - Homeless housing
 - Senior housing



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Restrictions for LIHTC


- Income restrictions
 - 20% of the units must be rented to households earning no more than 50% of the Area Median Income (AMI); OR
 - 40% of the units must be rented to households earning no more than 60% of AMI
- Rent restrictions
 - Gross rents restricted to 30% of tenant's income (assuming 1.5 persons/bedroom)
 - Rent plus tenant paid utilities cannot exceed restricted gross rent



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Populations Served:


- Family
- Senior
- Homeless/Special Needs/Permanent Supportive Housing
- Mixed income



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Bond Transactions & Structures


- Transaction Types
 - Construction only
 - Construction/Perm
 - Permanent only
- Bond Structures
 - Conduit financing
 - Publicly Offered
 - Privately Placed
 - Issuer serving as lender



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Challenges

- Limited availability of PAB with local jurisdictions and prioritization of competing uses
- Technical expertise required
 - Jurisdiction staff
 - Development partners
 - Lenders, lawyers and other professionals
- Market rents vs. restricted rents
- Transaction costs vs. property size



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Single Family Housing

- Mortgage loans for first time homebuyers or qualified veterans
- Mortgage Credit Certificates for first time homebuyers or qualified veterans
- Qualified Home Improvements (energy efficiency improvements)



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IRS Requirements for SF Programs Funded with Tax Exempt Bonds

- Any local issuer can design a mortgage program but it must comply with IRS rules:
 - Borrower must be first time homebuyer or qualified veteran
 - Program must have county-wide income and purchase price limits
 - Borrower must occupy the property as their primary residence
 - Funds must be available in targeted areas (non-first time homebuyers; higher income and purchase price limits)
 - Recapture Tax
- SF programs usually available from CHFA and may be available from Denver Metro Mayor's Caucus and/or El Paso County



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Mortgage Credit Certificates

- Homeowners take a tax credit equivalent to 20% of mortgage interest paid each year, applied towards their federal income tax liability
- Remaining 80% of mortgage interest is still tax deductible
- Can reissue an MCC if the borrower refinances and the home is still their primary residence
- Can use with any stable mortgage program EXCEPT those funded by tax-exempt bonds:
 - CHFA mortgage loan programs
 - Standard FHA/VA/USDA Rural Development/Conventional loan programs
 - Longer term ARMs
 - Bank portfolio programs
- MCCs can be used for mobile homes (chattel)
- CHFA, City and County of Denver and El Paso County frequently have MCC programs



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Industrial Development Bonds

- Aka Industrial Revenue Bonds
- Bonds issued by a government entity with the proceeds from the bond sales used to support a specific manufacturing facility
- Results in below market interest rate financing
- Economic Development Tool:
 - Business attraction and retention
 - Job creation/retention tool for primary employers
 - Capital investment into community
 - Increased state & local tax base



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Targeted Projects

- Manufacturing or processing facilities and equipment
- Eligible uses for bond proceeds:
 - Acquisition of land (less than 25%)
 - New construction of core manufacturing facilities
 - Acquisition/rehab projects (equivalent of 15% of cost of building must be spent on rehab of building)
 - Acquisition of new machinery and equipment
 - Maximum of 25% can be used for non-manufacturing facilities and equipment
 - Maximum of 2% in soft costs



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Identifying Eligible Projects

- Manufacturing companies that are expanding or want to own rather vs. lease
- Manufacturing or processing activities must occur in the building
- Can finance new equipment
- Current company debt can also be refinanced using taxable bonds




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Tax Exempt Bond Limits

- **Financing Limits**
 - Maximum \$10 million tax exempt bond per company within a jurisdiction.
 - Can utilize taxable bonds for projects greater than \$10 million up to a maximum of \$20 million
 - Maximum \$40 million in tax exempt bonds, in aggregate, for one company in all locations
 - Projects less than \$2.5 million are difficult and not cost effective
- **CHFA IDB Programs**
 - Manufacturing Revenue Bond Program
 - Mini-bond Program


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Pricing, Structure & Issuance Costs

- **Pricing Considerations**
 - Tax Exemption – interest on bonds exempt from state & federal income taxes
 - Interest Rate – variable rate bonds, synthetic fixed rate, etc.
 - Setting the Term – interest rate resets and tax code limits
- **Bond Structure**
 - Public Bond Issue
 - Private Placement
- **Bond Issuance Costs**
 - Closing fees – IDB vs. mini-bond
 - Ongoing fees – letter of credit, remarketing agent, issuer fee

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Private Activity Bonds (PAB)

Colorado Municipal League
March 8, 2018

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What are Private Activity Bonds?

- NOT CASH
- Tax-exempt bonds issued for *privately* developed projects.
- IRS allows a limited amount, also know as PAB “Cap” or Capacity.
- Municipalities (or Authorities) issue the bonds, but have no obligation to repay investors.
- Investors buy the bonds.
- Underwriters use the investors’ \$\$, or “bond proceeds,” to make a loan to the project.
- The *project* pays back the loan & investors get repaid + interest.
- PABs make rental housing eligible for 4% LIHTC.



Initial PAB Allocation Process

\$100 per person in the state = the “Volume Capacity”
\$554,054,500 in 2017; \$588,751,170 in 2018

50% of Allocation

50% of Allocation

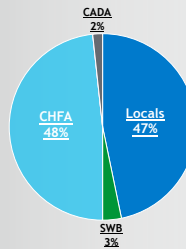
Statewide Authorities
• Colorado Housing and Finance Authority (CHFA)
• CO Agriculture Development Authority (CADA)

Local Governments
• 20,000 Persons or more
• \$52.50 per capita

Statewide Balance
Remaining cap administered by CO - DOLA/DDH



January 2018 PAB Allocation



53 Local Issuers - \$275,318,574
CHFA - \$284,375,585
CADA - \$10,000,000
SWB - \$19,057,011

- List of all direct allocations available at: <https://www.colorado.gov/pacific/dola/private-activity-bonds>

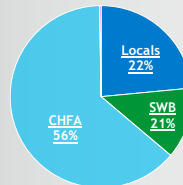


Local Issuers & Statewide Authorities

- Receive allocation by January 15th
- Establish priorities & act by September 15th
 - Bond issuance requires an inducement resolution and closing by December 23rd; OR
 - Carry-Forward bond cap for eligible purpose to close within a 3 year period - requires filing with IRS; OR
 - Relinquish to Statewide Balance; OR
 - Assign to another issuer for an eligible purpose
 - If you Receive an Assignment - issue it or carry it forward, or it will also relinquish on 9/15.



September 2017 PAB Allocation



El Paso Co - \$33,851,100
Denver/DHA - \$34,154,800
7 Other Locals - \$62,140,050
CHFA - \$352,197,950
CADA - \$1,525,000
SWB - \$70,185,600



How to Assemble PAB Cap

- Identify your issuer
 - Talk with your local governments - City, County & neighbors
 - Assignments of “fresh” or current year cap - act by 9/15
 - Delegations of cap they have carried forward
 - Talk with CHFA (especially if they will be the issuer)
 - Talk with DOH & Apply to the Statewide Balance
- ❖ Also, save some cap for the rest of us - only use 55% of TDC



Statewide Balance Applications

- DOLA receives allocation by January 15th & relinquished bond cap on Sept. 15th
- Monthly application cycles:
 - March thru November, \$750 application fee.
 - Review criteria are similar to DOH's Grant/Loan review
 - 8 week process, inc. PAB Allocation Committee & award letter
 - Relinquished bond cap distributed through November round.
- All must close by December 23rd
 - 0.033% issuance fee on Statewide Balance Awards
 - 0.011% issuance fee on bonds issued from direct allocations



Statewide Balance Applications

- Demonstrated local need & support:
 - Certified copy of an inducement resolution from the local government/issuer.
 - Local financial commitment of PAB allocation or other local financial subsidies.
 - Market study demonstrating need.
 - Housing Affordability - going beyond IRS requirements.



Statewide Balance Applications

- Feasibility:
 - Reasonable costs for development & operation.
 - Readiness to proceed - site under control, local planning & zoning approved, credit enhancement secured, tax credits reserved.
 - Financially sound - income/expense estimates reasonable, good underwriting ratios, sources & uses balance.
 - Development team experience, capacity.
- Typical bond issue size is \$6 - \$27 million
 - For rental, TDC of \$12MM - \$54MM, or 50 - 210 units



2016-17 Statewide Balance Awards

Date	Allocation	Project or Program
12/16	10,000,000	Villas at Wadsworth Station/MWHS & ULC
12/16	13,084,200	Denver Housing Programs
12/16	6,100,000	Boulder Housing Partners Pipeline
12/16	10,000,000	5800 Alameda/MWHS
10/17	4,500,000	Fall River Apts/Longmont Housing Authority
12/17	19,765,509	Lakeview on the Rise/Housing Catalyst & Pedcor
12/17	7,500,000	Indy Street Flats/MWHS
12/17	8,000,000	Loveland Housing Authority Pipeline
12/17	31,420,091	Denver Housing Programs
12/17	3,500,000	Aurora Housing Authority Pipeline

