



Oregon Affordable Housing Tax Credit

OAHTC Program Manual

Effective as of June 2016



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I. Introduction

In 1989 the Oregon Legislature created the Oregon Affordable Housing Tax Credit (OAHTC) Program under ORS 317.097. OAR chapter 813, division 110, is promulgated to carry out the provisions of ORS 317.097 under which the department certifies affordable multifamily rental housing development projects sponsored by government entities, nonprofit corporations and certain persons (“sponsoring entities” or “sponsors”) so as to enable a lending institution to claim Oregon Affordable Housing Tax Credits (“OAHTC” or “tax credits”) against Oregon taxes with respect to loans for the construction or acquisition, and rehabilitation of such projects. In exchange for this tax credit, project tenants get lower rents for each dollar of credit taken by the bank (exceptions can be found in section II of this manual).

The OAHTC program is described in four (4) separate locations: the Oregon Revised Statutes, Oregon Administrative Rules, the OHCS OAHTC Program Manual, and the Oregon Housing and Community Services General Policies and Guidelines Manual. All of the above items may be found at

<http://www.oregon.gov/ohcs/Pages/multifamily-housing-tax-credit-oahhc.aspx>

II. Program Requirements

The Oregon tax credits available under this program are limited. The following program requirements are necessary to get the most impact possible from this limited resource.

A. AVAILABILITY OF FUNDS

OAHTC is not available as a stand-alone funding source and must be paired with other OHCS resources such as 9% LIHTC, GHAP, HDGP and OHCS issued pass-through revenue bonds. OAHTC is not available with non-competitive 4% LIHTC when OHCS is not the bond issuer. A project utilizing other OHCS programs must meet the minimum requirements of those programs, and OHCS General Policy and Guideline Manual (GPGM), in addition to the requirements contained in this manual.

B. RENT REDUCTION (PASS-THROUGH)

The tax credits provided by this program allow lenders with a state of Oregon tax liability to reduce the interest rates on loans to approved Projects by up to four percent (4%). The OAHTC subsidy will then be applied to reduce rents (pass-through). This subsidy, which in effect is the savings generated by the lower interest rate, must be passed through directly to the tenants in its entirety. However, such pass-through need not be distributed evenly among the units. Some units may receive more of a reduction than others, subsequently driving those rents down to even deeper levels.



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The lower tenant rents are a project-specific requirement based on the credits taken by the bank or designee. The amortization of interest in the loan taken by the bank will vary each year. The reduction to tenant's rents will be averaged over the lesser of the term of the loan or twenty (20) years to provide the same tenant reduction to rent each year by the owner/borrower.

In satisfying the foregoing pass-through requirement, project owners may only assign up to the maximum of the estimated annual average per-unit pass-through to units whose qualified tenants are employing a tenant-based \$8 voucher. The estimated annual average per-unit pass-through for the project is to be calculated by dividing the annual loan interest savings divided by 12 months and then by dividing by the number of affordable units occupied or held vacant for occupancy by qualified tenants.

Rental units covered by section 8 project-based assistance are not eligible to be used to demonstrate pass-through savings for the OAHTC program because the rent reductions related to the OAHTC subsidy typically would not be passed on to the tenants in the form of a rent reduction from what the tenants would otherwise pay, and therefore, would not achieve pass-through savings. Projects that are partially covered with project based assistance may qualify to use OAHTC on the remaining units by, inter alia, demonstrating pass-through interest savings that result in appropriate rent reductions to the OAHTC qualified tenants. To the degree this can be achieved in conjunction with tenant vouchers not targeted for pass-through, it is encouraged to be targeted to non-voucher units in the Project.

C. EXCEPTIONS

Projects defined as a **Preservation Project** are not required to provide rent pass-through. A Preservation Project is defined as housing that was previously developed as affordable housing with a contract for rental assistance from the United States Department of Housing and Urban Development (HUD) or the United States Department of Agriculture and that is being acquired by a sponsoring entity. The contract for project-based rental assistance must cover at least twenty-five percent (25%) of all units in the Project and must be at risk of expiring within the next seven (7) years.

Projects defined as a **manufactured dwelling park** are not required to provide rent pass-through and are exempt from tenant income restrictions.

D. Other funding requirements applied before this credit is applied

OAHTC must be used to lower rents after all other OHCS subsidies and requirements for rents have been applied. A project utilizing other OHCS programs must meet the rent restriction requirements of those programs before OAHTC will be applied. For example, if an applicant applies for LIHTC and indicates they are choosing rent



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restrictions at sixty percent (60 %) of Area Median Family Income, the Application must demonstrate the required pass-through is being used to reduce rents below the sixty percent (60%) LIHTC restrictions.

E. Income and Expense Projections

The applicant is required to submit two (2) income worksheets in the pro forma; one showing the Project's rents at the targeted levels with financing at market lending rates and one showing the Project's targeted rents reduced by the amount of interest savings generated by the lower interest rate on the financing. The expense worksheet should not change with the exception of reflecting the reduced debt service projection.

F. DEMONSTRATED NEED

Applicants must demonstrate through their financial projections a need for OAHTCs to make the Project financially feasible and viable. This must be demonstrated in the approved OHCS pro forma. If the Project is within the OHCS DCR guidelines at the proposed rents without OAHTC, the OAHTCs will not be made available to the Project.

G. AFFORDABILITY RESTRICTIONS

In order to be eligible for the tax credit, the housing created by the loan must (A) make up 30% or more of all households in the Project; (B) be occupied by households earning 80% or less of Area Median Family Income, and (C) be operated and maintained in a manner consistent with program requirements for the term of the tax credits or twenty (20) years, whichever is longer.

III. Additional Program Requirements

H. LENDER INTENT AND REPORT

A letter of intent from the lender must accompany the application and must clearly state the lender is willing to participate in the OAHTC program. This letter should contain, at a minimum, (1) specific conditions pertaining to the project, (2) an estimated comparable market interest rate for the proposed loan, (3) the estimated reduced interest rate, (3) terms of the proposed loan, and (4) the estimated amount of interest savings that will be produced in return for the use of the tax credits.



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I. Firm commitment of financing and loan terms

A firm commitment of financing from a qualified lender is required before a final commitment of tax credits in the form of a Certification will be made. Applicants should be prepared to provide the finalized pro forma pages to OHCS demonstrating pass-through compliance at time of certification. OHCS will supply the lender with a Certification document to complete prior to the closing of the loan to certify the lender's agreed participation in the OAHTC program and the agreed to terms of the loan being provided.

J. Declaration of Restrictive Covenants

The borrower must execute restrictive covenants to be recorded at the time of the loan closing. A copy of this declaration will be made available upon request by OHCS. Please see Part II Section G for applicable affordability requirements.

K. ONGOING REPORTING AND CARRYOVER OF CREDITS

The lender will be required to submit an annual report to OHCS by May 31st of each year. The report must be submitted on a form furnished by OHCS and signed by an officer of the lending institution.

Any tax credit otherwise allowable under ORS 317.097 that is not used by the taxpayer in a particular year may be carried forward and offset against the taxpayer's tax liability for the next four (4) succeeding tax years.

L. CHARGES

The lender will be required to submit a fee equal to five percent (5%) of the annual tax credits claimed for the prior calendar year which will be due and payable by May 31st of each year along with the annual report referenced in Section D above. A late fee of \$100 will be charged for each full month the annual report is delayed.

IV. Pro forma Guidance

M. Income Page; Income with OAHTC Page; Housing Operating Budget

Every applicant must complete the Income page, including those requesting OAHTC.

If requesting OAHTC, applicants must also complete the "Income with OAHTC" page found later in the workbook.

Note: In the ranking of the project, if it is the desire of the sponsor to lock in a blend of 50 and 60% rents, or all rents at 60% before OAHTC is applied, this should be reflected in the Income pages of the pro forma, and the table for both the applicant information and the ranking/scoring section of the application. It should not only be



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noted in the narrative. The OAHTC pass through will then be reduced from this level. Also, the appraisal or market study need to be underwritten at the “before OAHTC” or “Income pages” of the pro forma rent levels to match up with the other 3 items in the NOFA application.

Select the county from the drop down menu at the top of the page, select whether the rents will be based on the Actual Multifamily Tax Subsidy Incomes or the Non-Metro Median Incomes. If this is not done, the formulas for Median Income % will not calculate.

To double check which one you want to use, to the right of this table you will see the income limits for the selected county as well as the non-metro medians for comparison. Once the county is selected, the worksheet entitled “Selected County Rent & Incomes” will be populated with the current year Actual Multifamily Tax Subsidy Incomes.

In the “Type” column select whether the unit is a HOME or LIHTC unit; this is used in calculating the percent of median income.

In the "Unit Size" column, select the following designations from the drop down list for appropriate unit sizes:

- 0 - use for single resident occupancy, efficiencies or studio apartments,
- 1 - use for one bedroom,
- 2 - use for two bedrooms,
- 3 - use for three bedrooms.

In the “Unit Type” column – select from the drop down menu whether it is a “BDR” unit for tenants or a “MGR” unit for property management.

“Number of Baths” column – select from the drop down menu 0.5, 1.0, 1.5, 2.0, etc.

“Median Income %” Column. Both the “Income without OAHTC” and the “Income with OAHTC” pages use formulas to automatically calculate the percentage of median income. The Department will consider the percentages to be expressed as a not-to-exceed percent of median income in ten percent (10%) intervals. For example, if the percentage of median income is calculated by the formula to be forty-three percent (43%), then the Department will consider the not-to-exceed percentage of median income to be fifty percent (50%). The Department will use these not-to-exceed percentages in all legal agreements and declarations between the applicant and the state.

In “Gross Monthly Program Rent Per Unit” enter the program rent; this is not to include any site-based Rental Assistance which is to be entered under Site-based Rental assistance (described below). The percentage of median income for each bedroom size appearing in the Median Income % column on the Income pages should not exceed the percentage allowed by the funding program(s).

In “Tenant Paid Utility Allow” enter the applicable utility allowance paid by the tenant.

In “# of Units” enter the number of units applicable in each row.



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For “Site-based Rental assistance” separate the amounts of rental income as allowed by the funding program(s) from the amount of site-based rental assistance. The percentage of median income for each bedroom size appearing in the above Median Income % column on the Income pages should not exceed the percentage allowed by the funding program(s).

Enter the total income for Service Revenue and any Other Revenue for the Project in the “Total Annual Income” column. This is the annual income for all units using the service or other Project revenue as project income.

The spreadsheet defaults the Annual Inflation Rate Factor for income to two percent (2%) (set at the top of the page). If a different rate is used, explanation must be provided in the Financial Description section of the Application. The same applies to the default seven percent (7%) vacancy rate at the bottom of the page.

The spreadsheet does not allow the Inflation Factor to vary on a line item-by-line item basis.

N. Expenses Page; Housing Operating Budget

The Annual Inflation Rate Factor at the top of the page is defaulted to three percent (3%). If this rate is changed, the change must be supported in the Financial Description narrative.

Complete only the green shaded cells, the spreadsheet will automatically calculate and complete the other cells.

In the Permanent Loan row, enter the interest rate, term and loan amount. If requesting OAHTC, show the original interest rates, not the rate after the OAHTC is applied.

The spreadsheet will complete the OAHTC permanent loan row using the information entered on the OAHTC calculation page.

The portion of the permanent loan not affected by the OAHTC reduction will be automatically calculated based on the OAHTC amount indicated.

Other Loans should include HOME loans, Trust Fund loans, partnership loans, etc.

This spreadsheet page will calculate cash flow projections up to thirty (30) years, but only prints the first five (5) years. After that point, it shows only years ten (10), fifteen (15), twenty (20) and thirty (30).

O. OAHTC Calculation Page

Enter only the portion of the loan reduced by the Oregon Affordable Housing Tax Credits in the loan amount labeled “W/O OAHTC”, as this is used to calculate the interest rate reduction, so the portion at full rate does not need to be in the OAHTC calculation page.

Input data in green shaded cells and the spreadsheet will calculate and complete the other cells.

Pass through requirements and amounts are shown just above the Loan Amortization section. The



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