

Washington Wire

for the CalHFA Board Meeting

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Agenda

Current Development Environment

Bond Cap and Tax Credits Per Capita

Upcoming 2023 Income Limits

Affordable Housing Credit Improvement Act

WASHINGTON WIRE ▲

Effects of High Inflation on Development, Financing and Operation of Tax Credit-Financed Housing



MICHAEL J. NOVOGRADAC, CPA

The annual U.S. inflation rate for 2021 was 4.7%, nearly a full percentage point above the previous peak (3.8% in 2008) in the years since 1993, when the low-income housing tax credit (LIHTC) became a permanent part of the tax code.

More frighteningly, the year-over-year consumer price index (CPI) rate in January 2022 was 7.5%—the highest for any month since June 1982, according to data from the Bureau of Labor Statistics. The CPI rose 0.6% in January alone.

The continuation of significant inflation would be a change from the past few decades. As evidence, each year from 2012 through 2020, the annual rate was 2.4% or lower.

Is this higher inflation rate transitory or more enduring? It's not clear: there's no consensus among economists as to whether we're entering a period of significant inflation or if this is a short-term aberration from the trend of the past three decades. Regardless, the possibility of enduring inflation means the affordable housing community needs to assess how higher long term inflation would affect LIHTC development, financing and operations.

Higher inflation affects other tax incentives as well, including renewable energy tax credits, historic tax credits, new markets tax credits and opportunity zones. While this column focuses on affordable housing, due consideration in these other tax incentive areas is needed as well.

The rate of inflation affects affordable housing development, financing, operations and tenants in many ways, which makes this an important topic to discuss. We can hope higher inflation is transitory, but should prepare for it to be more enduring. This month's column is intended to start the dialogue—to discuss some of the factors and encourage others to dig deeper and wider.

The effect of higher inflation on the direction of individual factors is easier to assess than the magnitude of those effects. The further aggregation of each identified directional and depth effect on each factor is even harder to assess. But assessments should be made and actions taken to respond and build

Challenging Development Environment



Rising costs and operating expenses
One challenge: costs rise immediately but rise in revenue is delayed.

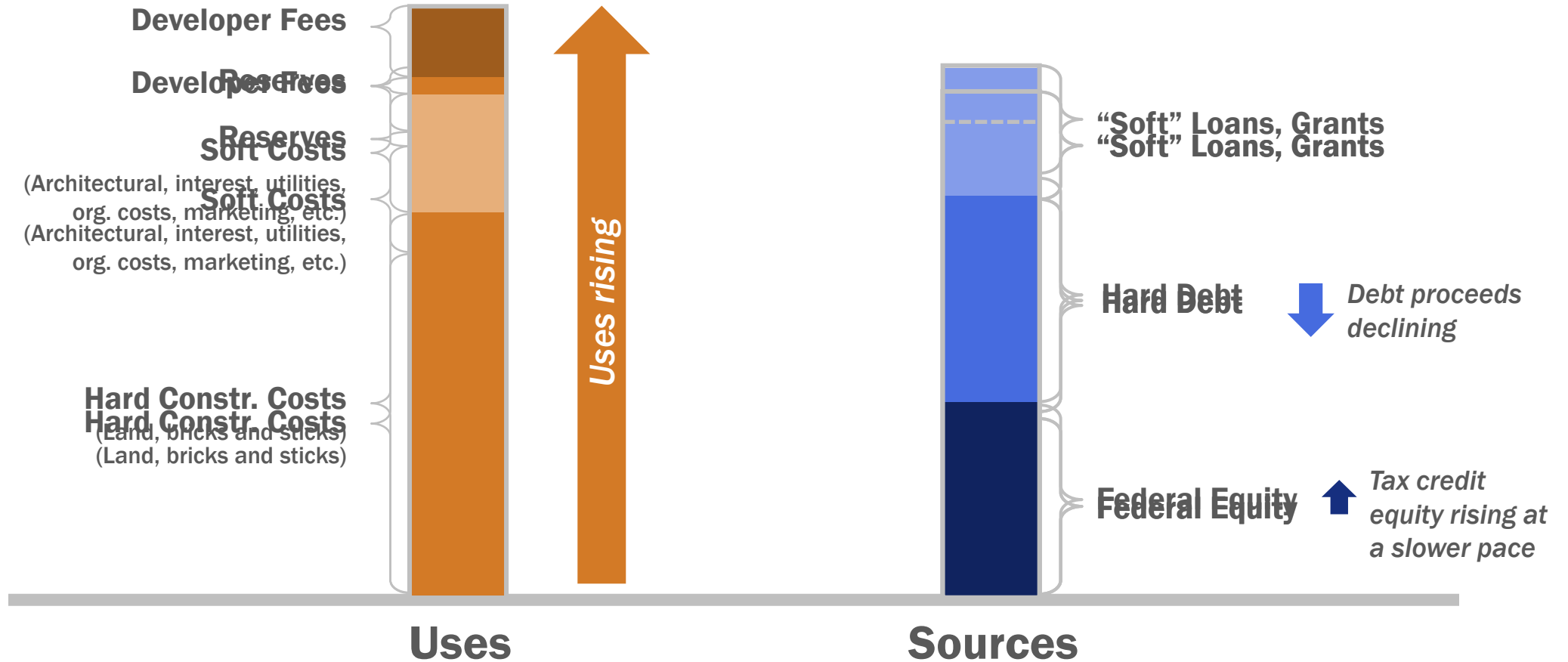


Rising interest rates
Translates to less equity/debt.



Greater need for gap financing

Impact on Sources and Uses





Recent Tax Legislation

- *More energy tax credits*
- *Transferrable tax credits*
- *Refundable tax credits*
- *Book minimum tax*



Inflation and High Interest Rates



Recession?

Supply & Demand Factors affecting INVESTOR EQUITY PRICING



Global Minimum Tax?



FASB Changes, Exposure Draft Posted



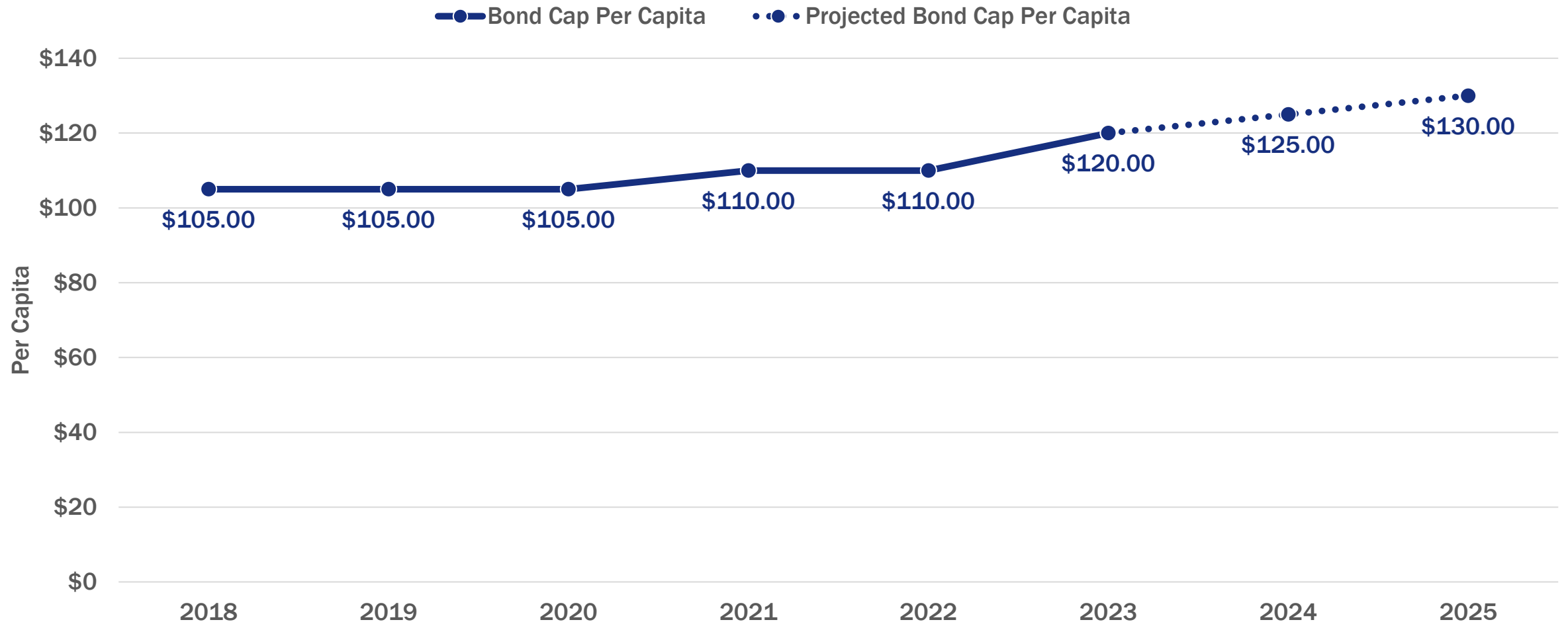
Community Reinvestment Act OCC, FDIC and Fed aiming to finalize by second quarter of 2023



Additional factors?

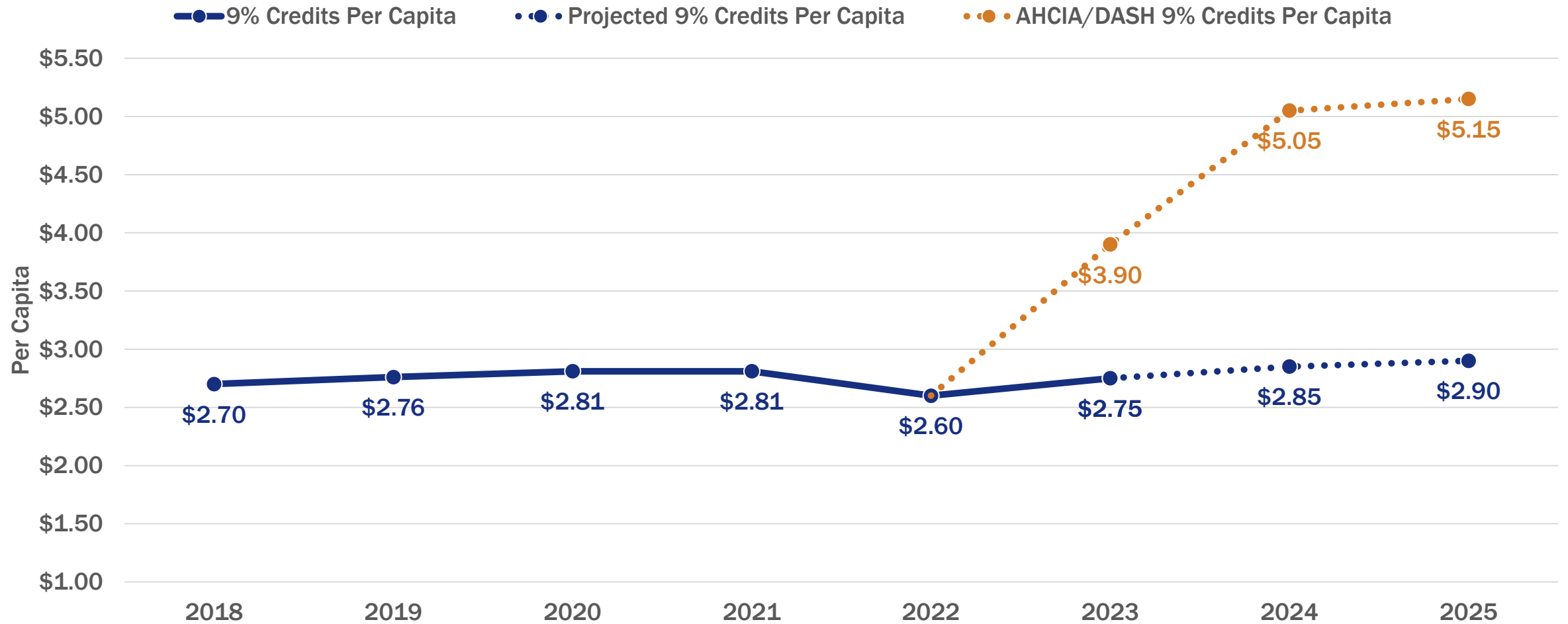
Delayed Increase in Resources

Bond Cap Per Capita




Delayed Increase in Resources

Tax Credits Per Capita





2023 Income Limits – Higher Tenant Revenue?

 **NOVOGRADAC**
Tax Credit Tuesday Podcast | www.novoco.com/podcast
| What We Do and Don't Know About FY 2023 Income Limits

SPECIAL GUEST

Thomas Stagg, CPA
Partner, Novogradac



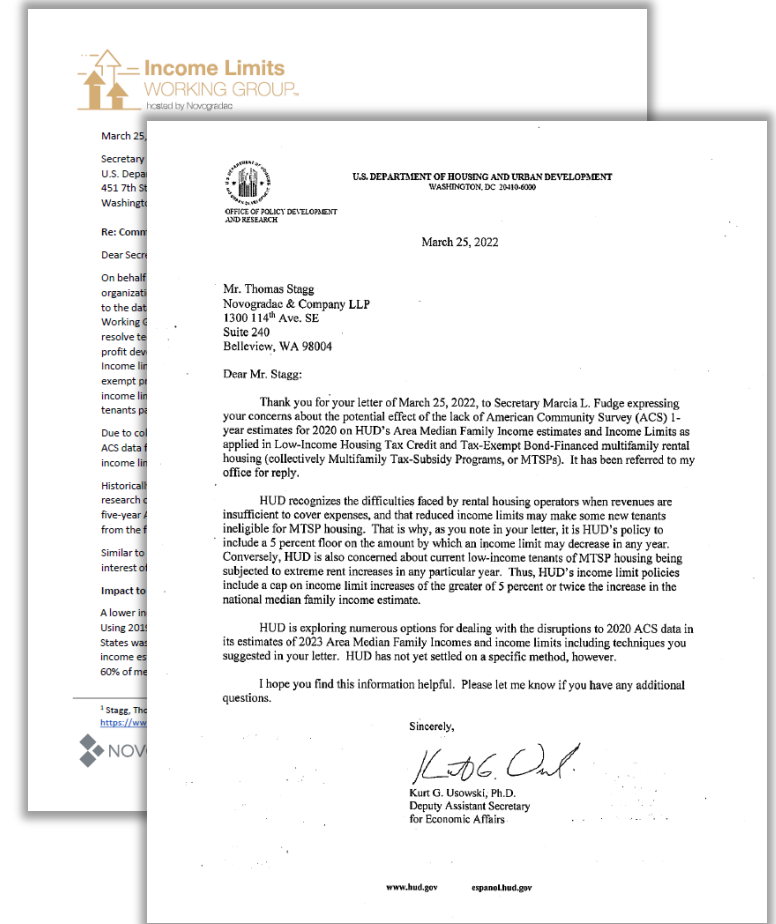
Thomas Stagg Michael Novogradac

♦ TUNE IN December 20, 2022

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- Census Bureau announced it will not release a one-year American Community Survey (ACS) for 2020
- HUD will use the 2021 ACS in place of the 2020 ACS
 - Income limits are targeted to be released on May 15 instead of April 1
- Using November CPI we are estimating national median income will increase by just over 4.75%
- Not all areas will have increases



2023 Income Limits – Higher Tenant Revenue?

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What to Expect with the 2023 HUD Income Limits

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Notes from Novogradac

What Could Debt Limit Negotiations Mean for Housing and Community Development?
Friday, February 24, 2023

Even With Recent Increases in Renewable and Clean Energy Tax Incentives, Far Less is Spent on Community Development Tax Expenditures than Other Notable Tax Expenditures

Here are some key questions and answers about the HUD 2023 income limits:

When will 2023 income limits be released?

HUD has a stated target of May 15 to release income limits for 2023. This is much later than in previous years, and later than HUD's recent goal of releasing limits April 1 each year. As will be covered in more detail later, the delay is due to HUD using the 2021 American Community Survey (ACS) data, as opposed to the 2020 ACS data for the 2023 income limits. HUD's statement notes that "the special tabulations of ACS 2021 data HUD needs for median family income calculations will not be available until early 2023." This drastically reduces the amount of time HUD has to process information and compile income limits. As such, HUD has pushed back the scheduled release date by six weeks.

How has the methodology changed for 2023?

As has been covered in a series of blog posts in this space, the U.S. Census Bureau did not publish a 2020 one-year ACS due to data collection issues related to COVID. The 2020 one-year ACS would have typically been the starting point for the 2023 HUD income limits. In December 2022, HUD announced that in place of 2020 ACS data, HUD would use 2021 ACS data for 2023 income limits.

Thomas Stagg, CPA
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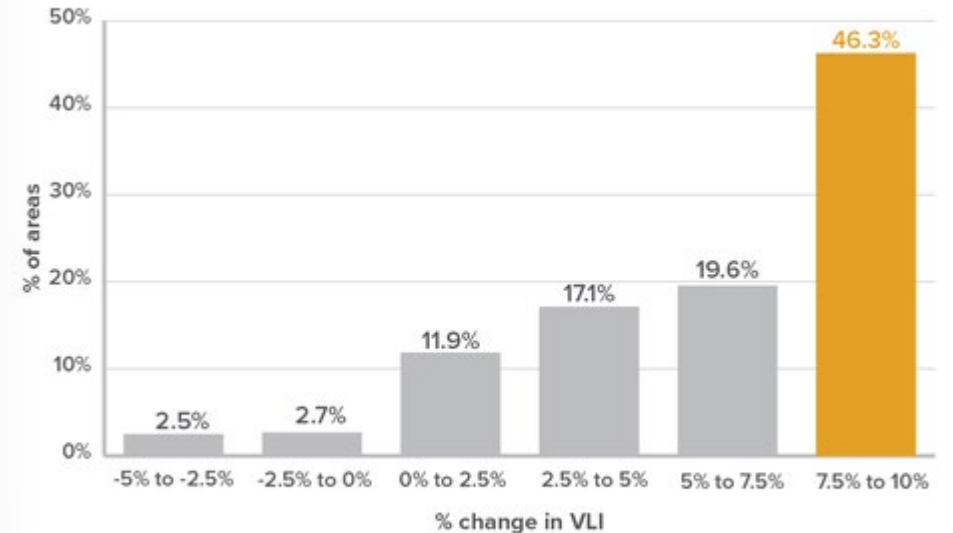
Median Income 2023

ACS Data	x	CPI Factor	=	HUD AMI
2020	x	(2023 CPI/2020 CPI)	=	2023 AMI
2021	x	(2023 CPI/2021 CPI)	=	2023 AMI

Source: Novogradac



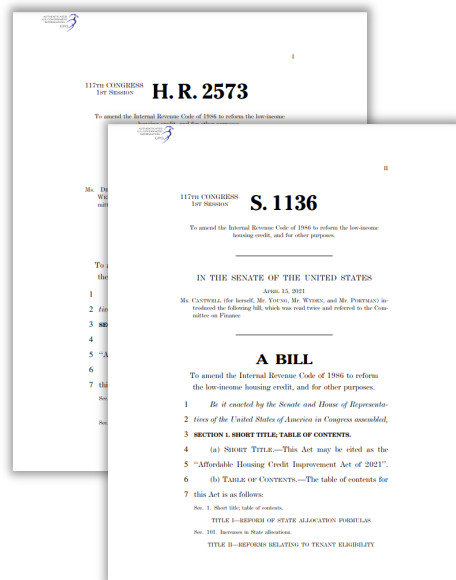
Estimated Change in VLI, 2023



U.S. Department of Housing and Urban Development; Novogradac



Affordable Housing Credit Improvement Act TO BE REINTRODUCED



2021 bill cosponsors:

S. 1136: 11R 33D | H.R. 2573: 71R 137D

Expected lead sponsors:



CANTWELL
D-WA



YOUNG
R-IN



WYDEN
D-OR



BLACKBURN
R-TN



LAHOOD
R-IL



DELBENE
D-WA



WENSTRUP
R-OH



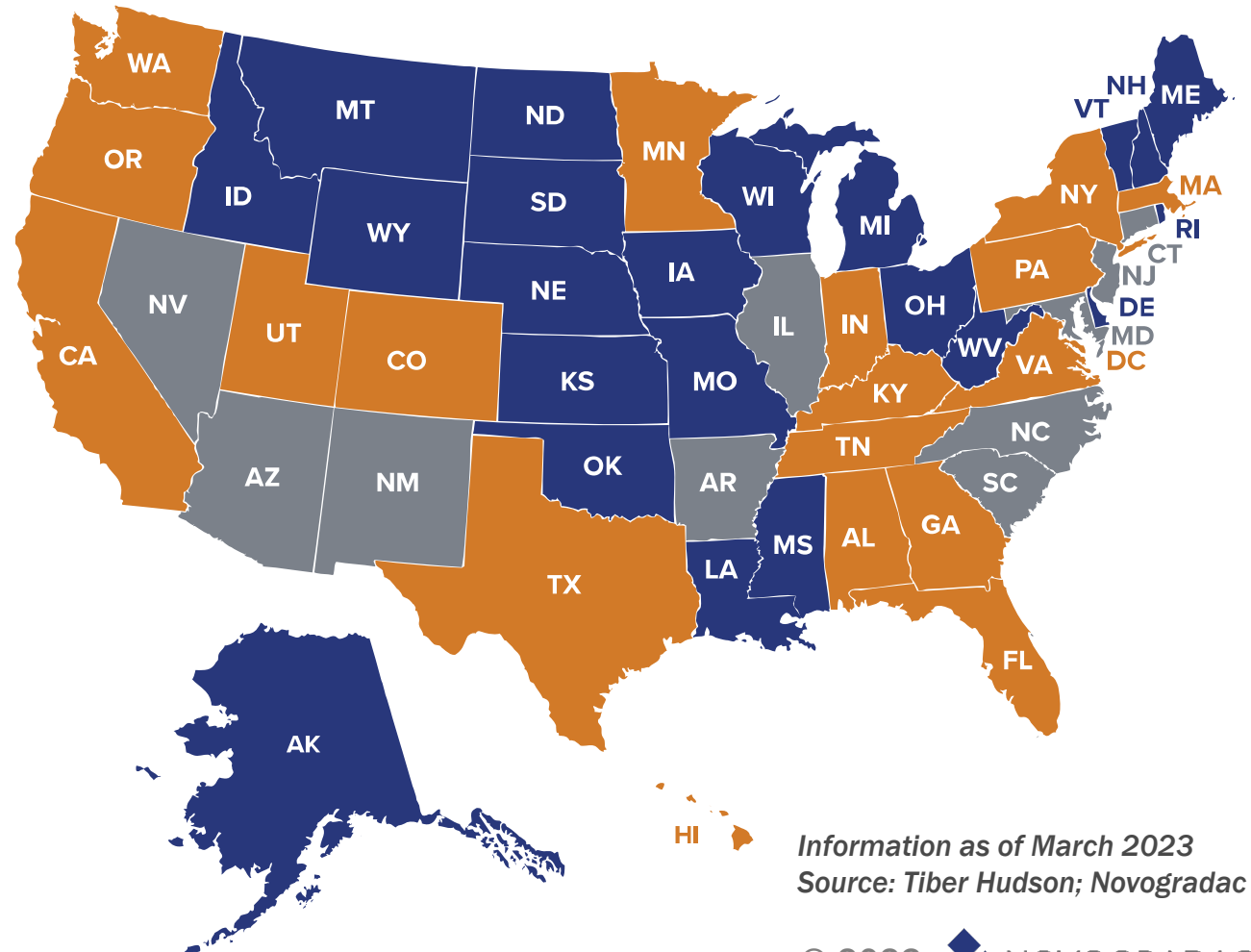
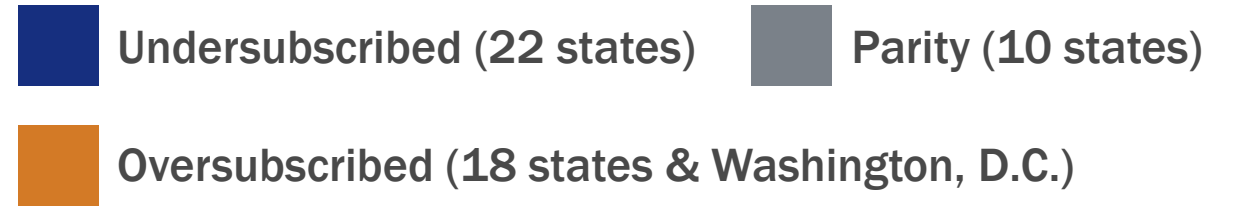
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Affordable Housing Credit Improvement Act

EFFECT OF PRIMARY PROVISIONS

Lowering the 50% Test to 25%

Up to **1.48 million** additional rental homes over 10 years
(estimate as of December 2022)



Information as of March 2023
Source: Tiber Hudson; Novogradac

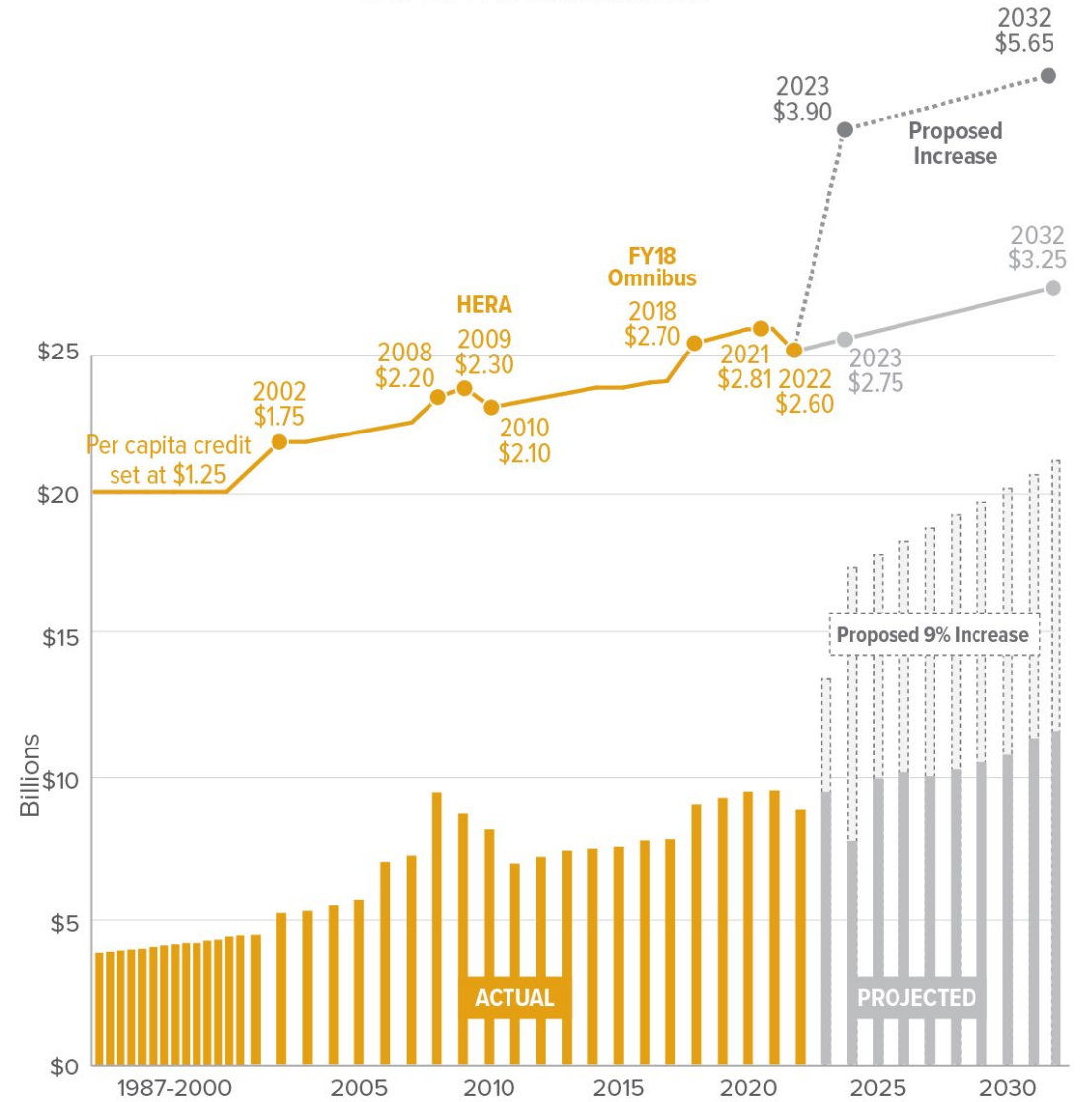
Affordable Housing Credit Improvement Act

EFFECT OF PRIMARY PROVISIONS

Increase in 9% allocations

450,100 additional rental homes over 10 years
(estimate as of December 2022)

9% LIHTC Allocations



Source: Novogradac

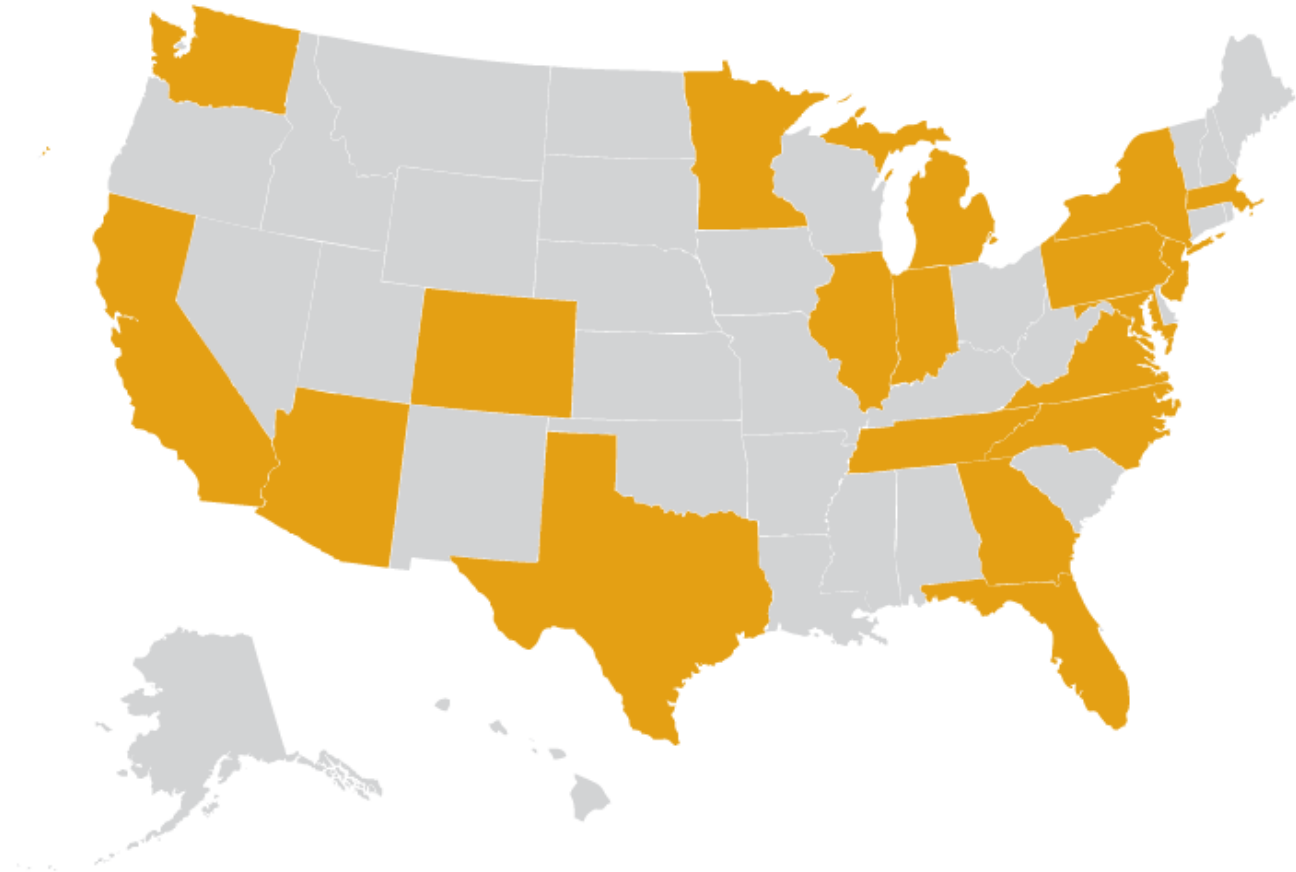


Affordable Housing Credit Improvement Act

CALIFORNIA WOULD SEE 306,100 ADDITIONAL HOMES

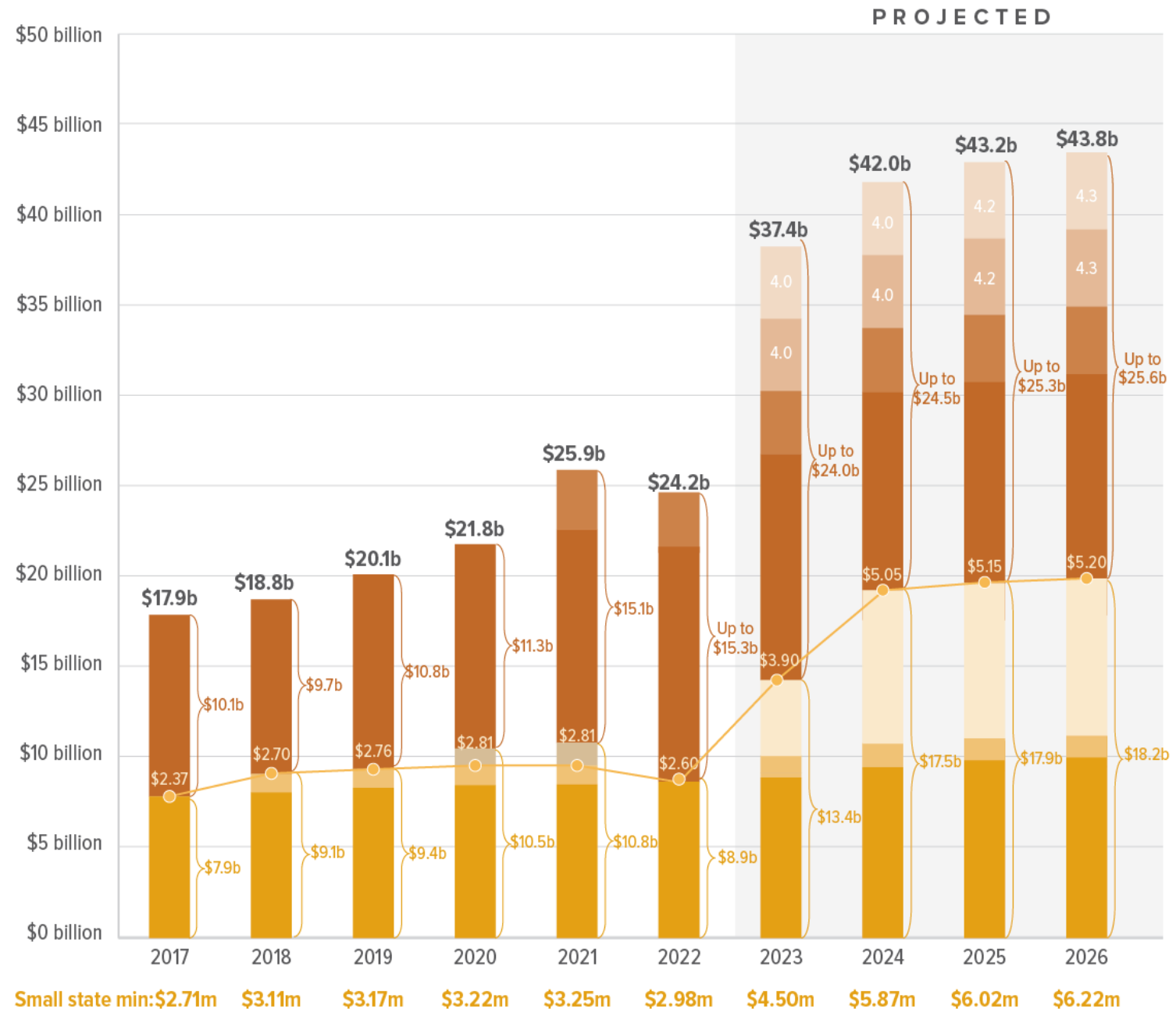
Additional Homes
Over 10 Years

1	California	306,100
2	Georgia	155,000
3	Texas	138,100
4	New York State	115,200
5	Florida	108,900
6	Tennessee	62,100
7	Maryland	61,900
8	Washington	60,900
9	Massachusetts	57,800
10	Illinois	52,600
11	Colorado	47,600
12	Virginia	47,300
13	Indiana	45,500
14	Michigan	44,400
15	Pennsylvania	43,700
16	Minnesota	41,000
17	Arizona	40,200
18	District of Columbia	39,700
19	North Carolina	38,500
20	New Jersey	38,200



Annual LIHTCs: 9% and 4% (estimates)

- 9% Per Capita Credits
- 12.5% Increase
- Non-COVID Disaster LIHTCs and CA Wildfires
- AHCIA 9% Increase
- 4% Private Activity Bond Credits
- Additional credits from 4% Floor
- Lowering the 50% Test to 25%



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