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Re: Enterprise Pointe // Low Income Housing Tax Credits

Dear Council Members:

I am a Senior Vice President of Great Lakes Capital Fund (“Great Lakes”), a nonprofit community development finance institution that supports vibrant, healthy and sustainable communities. Over the past 22 years, Great Lakes has been involved in the placement of approximately $2.95 billion of equity investments and permanent loans for low income housing tax credit (“LIHTC”) properties, has supported over 635 developments comprising over 39,000 units, and has managed over $360 million of New markets Tax Credits in economic development. In addition, one of the services that Great Lakes provides is to act as a syndicator in connection with the sale of LIHTCs by connecting private investors with developers seeking cash for qualified LIHTC developments.

We have been contacted by Keller Development, who we understand is acting as a co-developer and general contractor in connection with a proposed LIHTC development on Rudisill Boulevard to be known as Enterprise Pointe. It is my understanding that many questions have been asked concerning the LIHTC process generally, including the need to have appropriate zoning approval. Please allow this correspondence to serve as a brief response to these concerns. In addition, I will be available to answer any additional questions at the Council’s July 7th public hearing on the Enterprise Pointe rezoning petition.

As you may already be aware, LIHTCs are a mechanism created as a result of the Tax Reform Act of 1986 that provides a dollar for dollar tax credit for affordable housing investments. The United States Department of the Treasury issues the tax credits to state governments for administration and allocation and requires that LIHTC-funded housing stays affordable for at least 15 years. States, in turn, administer the award of LIHTCs to private developers for the construction of qualified housing developments using a competitive allocation process, thus controlling the type and location of housing built. Syndicators, such as Great Lakes, create funds to pool investor capital and then use the funds to purchase LIHTCs from the developer in exchange for an equity stake in the housing development. With capital from private investors, developers can limit the amount of money borrowed to fund construction thereby reducing debt and keeping rent affordable.

Generally, an investor contemplating investing in housing tax credits can choose from one of two investment approaches: a direct investment or a syndicated investment. Under the direct investment approach, an investor directly owns a limited partnership interest in the property partnership that owns the underlying property, with the developer typically assuming the general partnership interest. The syndicated investment approach enables investors to invest in a fund organized and managed by a syndicator. Under this approach, the investors own the limited partner interest in the fund, with the fund in turn owning the limited partner interest in various property partnerships.

Regardless of the approach, an investment in a LIHTC development requires a substantial amount of due diligence and underwriting in an effort to assess the amount of risk inherent with an investment in the development. This due diligence may include, among other things, investigation of the developer, property manager, and general contractor, a review of past performance on other projects, a review of survey and title work, a review of pro forma financial statements, and confirmation that the property is appropriately zoned for the intended use. Great Lakes has made the business decision, given the amount of the investment involved, that it will not invest in a development that relies upon a use variance or legal nonconforming use status to achieve zoning compliance. The reason for this is simple: in the event that the development is substantially destroyed by fire or other catastrophe, a use variance simply does not allow the same level of flexibility, and the right to use the property in the intended manner can be lost if the development is not rebuilt within the time allotted under the applicable zoning ordinance. This uncertainty creates an unacceptable amount of risk.

The use of LIHTCs for construction of multi-family housing brings with it a number of safeguards intended to provide accountability for the developer and the tax credit investor. In particular, pursuant to applicable IRS rules and guidelines, the sale of the development or an ownership interest in the entity that owns the development prior to the expiration of a 15 year compliance period will result in the IRS seeking to "recapture" the tax credits and the forfeiture of future credits. Likewise, the failure to maintain the development in compliance with the IRS's affordability requirements will also result in the recapture and loss of tax credits.

In addition to compliance with the affordability requirements, the Indiana Housing and Community Development Authority ("IHCDA"), which is the state entity responsible for the allocation and oversight of LIHTCs, also establishes criteria concerning (a) the reasonableness of fees and profits; (b) minimum construction standards, including the use of smoke detectors and fire suppression systems; (c) occupancy; (d) the amount of syndication proceeds to be received;

and (e) increases in operating expenses and rental income. The IHCDA also requires the creation of operating and replacement reserves for the replacement of components, such as roofs, structural repairs, major projects to replace or upgrade existing furnishings, and the replacement of appliances.

The rigorous compliance tests and layers of state and federal oversight, coupled with the due diligence conducted by syndicators and tax credit investors, has resulted in high performing investments. On a national level, less than 1% of all LIHTC developments have been lost to foreclosure. Moreover, the three major performance metrics for LIHTC housing - physical occupancy, debt service coverage, and per unit cash flow – are at or near all-time highs.

I trust that the above and foregoing is instructive as to LIHTCs generally and responsive to the concerns you are hearing from your constituents. I plan to attend the public hearing before the Common Council currently scheduled for July 7th and would be happy to address any additional questions or concerns. In the meantime, please do not hesitate to contact me if there is any additional information I can provide.

Very Truly Yours,

GREAT LAKES CAPITAL FUND

Jack L. Brummett

Jack L. Brummett
Senior Vice President