Attachment A

The federal Tax Cuts and Jobs Act of 2017 (tax reform) will cause one or more funding gaps in the construction budgets of affordable housing developments. Three provisions and there impacts are discussed below.

**Funding Gap #1**
Elimination of private activity bonds in 2018: The County is the conduit issuer of private activity bonds for affordable housing developments. These bonds provide tax-exempt construction financing. Typically, construction draws occur over the 18 to 24 month construction period and interest on the construction draws starts accruing as the funds are drawn down. The proposal to eliminate private activity bonds is moving developers to draw down all of their construction financing prior to December 31, 2017. Drawing down all of the funds before construction begins means the interest payments are on the full construction loan amount from the beginning of construction, rather than spread out over time. Even though the drawn funds can be held in an interest-bearing account, there were still be increased construction interest costs.

**Funding Gap #2**
Reduction of the corporate tax rate: Tax-exempt bond financing is often combined with low income housing tax credits (tax credits). Tax credits are sold by a non-profit developer to an investor that provides an equity investment in the development. In 2017, tax credit investors presumed that there would be tax reform and that the corporate tax rate would be set at 25 percent. Tax credit purchase offers were made with that assumption. With a proposed corporate tax rate of 20 percent, most investors are incorporating downward adjusters into their purchase agreements. Meaning, they are putting the risk of lower value tax credits onto the developer. A corporate tax rate anywhere below 25 percent will create a funding gap. Until the final tax reform bill is signed by the President, we do not know the exact amount of the funding gap.

**Funding Gap #3**
Reduction in “Basis Boost”: The tax credit program provides a mechanism to off-set development costs in high cost areas (known as “difficult to develop areas”, or DDAs) by increasing the eligible basis for tax credits by providing a 130 percent “basis boost.” An amendment to the Senate tax reform bill would decrease the basis boost in DDAs to 125 percent for any project that is not complete and occupied by December 31, 2017. If this amendment stays in the final tax bill, it will cause a funding gap.