

**NOTICE OF AVAILABILITY
of
NEW MARKETS TAX CREDIT FUNDING**

By



Notice Number: DCHE 2014-4

**Applications Accepted Starting: July 28, 2014
Application Submission Due Date: August 28, 2014**

**DC Housing Enterprises
1133 North Capitol St, NE – Suite 242
Washington, DC 20002**

DC HOUSING ENTERPRISES
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I. DC Housing Enterprises

The US Department of the Treasury's Community Development Financial Institutions ("CDFI") Fund has awarded to DC Housing Enterprises ("DCHE"), a wholly owned subsidiary and instrumentality of the District of Columbia Housing Authority ("DCHA"), its second allocation of New Markets Tax Credits ("NMTC"). DCHE is a CDFI-certified community development entity ("Community Development Entity" or "CDE"). As an allocatee of NMTC authority, DCHE has the ability to make further allocations NMTC authority pursuant to its Allocation Agreement with the CDFI Fund, applicable NMTC Program legal requirements, *Internal Revenue Code* § 45D and applicable Treasury Regulations

DCHE will deploy NMTC allocations through sub-allocations to subsidiary entities that are also CDFI-certified CDEs (the "sub-allocatee(s) or "Sub-CDE(s)") for each qualified equity investment ("Qualified Equity Investment" or "QEI").

DCHE is accepting NMTC funding applications from development entities and not-for-profit organizations for eligible projects in qualified census tracts in the District of Columbia. DCHE is targeting low-income communities located in census tracts that meet the NMTC program's eligibility criteria and also meet the program's "high-distress" requirements: a poverty rate greater than 30% median family income that is less than 60% of the area median family income, and/or an unemployment rate at least 1.5 times the national average. DCHE recognizes projects may require more NMTC allocation than DCHE has available. DCHE may reach out to other Community Development Entities to gauge their interest in partnering with DCHE to fill project's capital gaps. DCHE's preference will be to lead any syndicate of CDE's providing allocation to a project and **will** determine the amount of its NMTC allocations based upon its evaluation of the project application.

Funding applications are due August 28, 2014 at 4:00pm. If Allocation remains after the first round of application reviews are completed, DCHE will continue to accept funding applications until funding is fully allocated.

Census tract eligibility for projects can be identified using the following mapping tool:
www.cohnreznick.com/NMTC-mapping-tool

Please submit (5) five hard copies of NMTC Funding Applications to:

Ms. Cheryl Moore

Interim Contracting Officer

Chansber@dchousing.org

1133 North Capitol St, NE

Suite 300

Washington, DC 20002

Office: (202) 535-1111

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II. DCHE Allocation Plan

As a local CDE, DCHE will only deploy NMTCs in projects located in the District of Columbia and that satisfy DCHE's investment criteria. The CY 2013 allocation will focus on the District's most economically distressed communities, which are located primarily east of the Anacostia River, in Wards 7 and 8. The area east of the river has the District's lowest concentration of highest unemployment rate, lowest performing public schools and highest poverty rate. DCHE will provide financing for commercial, mixed-use, educational and community facilities. Applicants are encouraged to maximize the level of community benefits offered through job creation and other opportunities that target low-income residents of the District of Columbia including public housing residents.

DCHE will consider funding of projects that satisfy its investment criteria by demonstrating drastic improvements to the economic and social benefits in underserved low-income neighborhoods throughout the District, but in particular, communities east of the Anacostia River, which comprise of Wards 7 and 8. DCHE's investment criterion is based on the extent to which a transaction advances DCHE's community development strategy and demonstrates the ability to meet the following investment criteria. Among specific issues DCHE will consider when assessing a project's appropriateness for NMTC financing are the following:

- 1) Number of new quality jobs created (i.e. full-time positions with livable wages and benefits) particularly for very low-income residents of the District of Columbia
- 2) Number of direct beneficiaries of critical goods and services (e.g., fresh food, health care, quality education) provide by the project;
- 3) Ability to catalyze significant additional investment in surrounding community
- 4) Ability to eradicate blight or otherwise improving environmental conditions (e.g. cleaning up of contaminated sites, conserving energy, reducing greenhouse gases);
- 5) Commitment of other sources of public and private capital
- 6) Coordination with other DCHA-sponsored development
- 7) Ability to close by November 30, 2015

Financing Terms

- DCHE intends to provide NMTC financing in amounts ranging from \$5 million to \$15 million per transaction. DCHE will partner with other CDEs on transactions that require larger amounts of NMTC financing.
- DCHE typically will provide both senior and subordinate debt to a project. The interest rate will depend in part on the source(s) of leverage debt that accompanies the NMTC investor's equity at the investment level. DCHE expects its NMTC financing loan terms to be notably more flexible than what can be found in the conventional market.

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III. New Markets Tax Credit Program

The purpose of the NMTC program is to encourage private investment in low-income communities (LICs). The NMTC program emphasizes infrastructure, retail, commercial development, although some residential development is allowable. The tax specific details of the NMTC Program are included in Internal Revenue Code Section 45D. In return for an equity investment in a NMTC allocate, a taxable investment will receive a credit against its federal income tax for seven years.

Definitions: The following terms used in this notice are defined below.

- A. A and B Notes: Typically, the A note refers to a senior-position loan to a project. This note is typically capitalized from the leverage debt component of a Qualified Equity Investments. The B note refers to a subordinate-position loan to or equity investment to the project. It is usually capitalized from the NMTC equity component of the Qualified Equity Investment.
- B. Allocation Agreement Plan: This agreement is between DCHE and U.S. Treasury Department, it contains the terms and conditions governing the uses of the NMTC allocation, including, but not limited to, the geographic areas that DCHE will serve and the favorable underwriting terms and conditions under which DCHE will provide financial assistance. The agreement also specifies events of default and NMTC recapture and the remedies available to the CDFI Fund. Any issues related to the possible recapture of the NMTCs will be reported to the IRS, which will make the determination as to whether an event of recapture has occurred.
- C. Community Development Entity (CDE): Any domestic corporation or partnerships, for federal tax purposes, certified as a CDE by the CDFI fund pursuant to the Internal Revenue Code (IRC) Subsection 45D (c).
- D. New Markets Tax Credit (NMTC) Allocation: An allocation of tax credit authority pursuant to the NMTC program. A CDE that receives an NMTC Allocation is an allocatee. If applicable, an allocatee may transfer all or part of its NMTC allocation to a subsidiary allocatee(s), which must be certified as a Community Development Entity.
- E. Qualified Active Low-Income Community Business (QALICB): Any corporation, partnership, or other business that meets the requirements set forth in IRC Subsection 45D (d) and Treasury Regulation 1.45D-1(d) (4).
- F. Qualified Equity Investment (QEI): An equity investment in a CDE that meets the requirements of IRC Subsection 45D (b) and Treasury Regulation 1.45D-1(c). QEIs frequently are made by leveraged equity funds, which combine equity from a taxable investor and debt from a leveraged lender and use the aggregate amount to make the investment into the CDE.

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- G. Qualified Low-Income Community Investment (QLICI): Generally QLICIs comprise loans, or equity investments in QALCBs and other CDEs; additionally, they may include loan purchases and the provision of financial counseling and other services.
- H. Community Development Financial Institution Fund: The Community Development Financial Institution (CDFI) Fund was created by the Department of Treasury to expand the availability of credit, investment capital, and financial services in distressed urban and rural communities.

IV. Application Review Process and Guidelines

DCHE will review NMTC Funding Applications that are submitted by **August 28, 2014**. DCHE will deploy NMTC authority in connection with approved QEIs, as the same satisfy applicable conditions for closing. If NMTC allocation remains after the first round of qualifying applications are selected for funding. DCHE will continue to accept funding applications until the allocation of NMTC authority is fully deployed.

DCHE will employ a (3) three-stage application review and approval process, which includes: Stage 1- Initial Application Screening; Stage 2 - Underwriting for Conditional Commitments; and Stage 3 - Final Approval and Closing. Stage 1 Applications that satisfy threshold evaluation criteria will proceed to Stage 2 for underwriting. The description of submission material for a completed application at the 3 stages of the review process is outlined below (DCHE reserves the right to alter foregoing process, require different or additional information or materials from those outlined herein, and/or add or consolidate Stages of the process, in its sole discretion):

Stage 1: Initial Application Screening

A brief proposal with a general description of site, the proposed ownership entity, the developer/sponsor, the financing required and projects need for NMTC subsidy. The application shall include:

1. A completed funding application (Attachment Exhibit – A)
2. A development budget showing estimated hard and soft costs, along with a discussion of proposed sources and uses of funds and financial structure.
3. An operating pro forma with summary expense information, estimated net operating income, information on the capacity and experience of the developer/sponsor to perform, proposed debt and equity sources and other pertinent financial data.
4. A description of how the proposed project conforms to DCHE's Allocation Plan
5. An outline of any unusual features of the proposed deal, which might come up during the underwriting process.
6. A description of the community impact and direct benefits to the low income community
7. All Threshold Criteria has been met

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Stage 2: Underwriting for Conditional Commitment

First round applicants submitting Stage 2 application submission material shall include a completed funding application - Exhibit-A. DCHE staff will formally notify applicants of their respective projects' selection to proceed to the Stage 2 underwriting process. The application shall include:

1. Executive Summary and Narrative with documentation specified on the Document Checklist (Attachment Exhibit – B).
2. The completed checklist indicating that items attached should be used as a cover for the exhibit's that follow the narrative
3. An Application Fee of 0.1% of the requested allocation amount must be tendered and shall become non-refundable after the application is selected for Stage 2 underwriting. If less than the requested allocation is approved, the applicable proportional amount of the application fee will be returned. The application fee will be applied towards the origination fee. Checks shall be made out to DC Housing Enterprises.

This section describes the minimum information required to be considered as a complete Stage 2 application. It is recommended that applicants provide detailed project information sufficient to assess the project against the Selection Criteria.

DCHE staff will conduct the final underwriting analysis. Loan documents must be in substantially final form before the Investment Committee seeks final approval of DCHE Board of Directors for a NMTC Allocation

A Conditional Commitment, based on Investment Committee recommendation and approved by DCHE Board, will indicate DCHE's desire to finance a project as proposed. The Conditional Commitment will indicate any concern that DCHE may have with the transaction as proposed that must be addressed if a project is to move forward. A Conditional Commitment does not guarantee that a project will receive an allocation. It is anticipated that some projects that receive a Conditional Commitment will not move forward due to matters within or outside the control of the developer and other financing sources.

DCHE, at its discretion may issue Conditional Commitment in excess of its NMTC allocation amount. Such an approach would accommodate the anticipated withdrawal of some projects and ensure that DCHE still would be able to deploy its entire NMTC allocation in a timely manner. The application fee shall be refunded to any project that is not able to close solely as a result of DCHE's insufficient remaining NMTC allocation authority.

Application Form and Certifications – The DCHE Application forms should be completed in their entirety. The applicant's authorized representative must sign the Certifications provided at the end of this document.

Executive Summary – The Executive Summary should provide a summary description of the proposed project and its market position. The Stage 2 Document Checklist shall be included as

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part of the Stage 2 application submission and the 0.1% Application Fee shall be provided when DCHE has notified applicant that their application has been selected for Stage 2 underwriting.

Project Narrative – The Narrative should discuss key elements of the development plan, as outlined below:

- Background and experience of developer/sponsor and general partner;
- Financial capacity of the developer and general partners;
- Description of ownership entity;
- Financial and market feasibility of the project including any feasibility/market studies and reports that have been conducted;
- Acquisition-related costs, the scope and cost of rehabilitation or construction, revenue and expense estimates, and proposed financial structure;
- Exhibits must include a breakdown of the sources and uses of funds; an operating pro forma for the lease-up period plus 10 years at stabilization occupancy and, in the case of an existing project, three years of prior-year project operating budgets and financial statements;
- Neighborhood and site information including whether the project is subject to historic preservation requirements or is in a flood hazard zone;
- The site and building type(s), all building addresses, project history, current and proposed zoning, and in the case of for-sale or missed-use projects, current and proposed unit-types and amenities;
- Exhibits must include evidence of site control including evidence of the waiver, assignments, or expiration of tenants' rights (if applicable) in accordance with DC Law; a location map indicating other significant developments and key institutions (e.g., schools, hospitals, supermarkets, retail, shopping, public transit stations etc.); within a one-mile radius; an existing and/or proposed site plan; floor plans ; and twelve 5"X7" color photographs of the site and building exteriors;
- Information on comparable projects in the target market;
- Current occupancy levels at subject property;
- Anticipated neighborhood/community impact of the completed project;
- Evidence of community support;

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- Summary of experience of developer or its team members partnering with community groups and institutions during the planning and redevelopment of a project, including a description of the project, the community partnerships and the actions taken to include the community's input;
- Temporary relocation and anti-displacement plan (if applicable);
- Background Information on proposed management agent including previous experience managing similar projects;
- Financial statements including operating statements for existing property and statements of net worth of income statements for ownership and development entities;
- Proposed management agreement (if applicable);
- General contractor information (if available);
- Architectural and engineering design plans including draft architectural rendering of proposed façade and curb appeal features;
- Description of the scope of work;
- Environmental strategy to ensure project compliance with the District's Green Building Act;
- Recent Appraisal report (if applicable, no more than 6 months old);
- Environmental Reports including a Phase I Environmental Assessment (ESA);
- Project development schedule;
- Community Benefits
 - o Description of benefits the project will generate for the community (e.g. construction and permanent jobs, additional goods and services, improved public health, environmental remediation)
 - o Description of any anticipated additional investment in the community that the subject project will help facilitate;
 - o Description of fiscal benefits of the project to the District of Columbia (additional tax revenue, reduced public costs, etc.)
- Depending on the financing vehicles used (e.g. loan guarantees, grants, subsidies of operating expenses, leveraged financing) there may be related documentation required

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Stage 3: Final Approval and Closing

DCHE Staff will notify applicants, on a case-by-case basis of additional submission requirements for Stage 3 processing. These materials may include final agreements, contracts or other document or terms required as a condition to issuing DCHE Board Approval.

Closing is contingent upon the following:

- DCHE Board's approval of the project as meeting the allocation plan and all criteria for the NMTC Allocation.

V. Financing and Fee Structure

DCHE anticipates using a leveraged financing structure. DCHE expects to issue QEIs to leverage equity funds (investment partnerships) that will obtain equity from a taxable investor and one or more loans from a leveraged lender or lenders. The leveraged equity fund will use the combined capital to make QEI's into DCHE or one of its CDE subsidiaries. With the QEI capital, DCHE or its CDE subsidiary will make one or more Qualified Low Income Community Investments (QLICI) to a Qualified Active Low Income Community Business (QALICB).

DCHE anticipates that the QLICIs typically will consist of two loans. A senior A note will be capitalized from the levered loan component of the QEI. Its rates and terms generally will mirror those of the leveraged loan. To the extent that the leverage loan capital is comprised of grants and/or concessionary debt, DCHE will be able to charge below-market interest rates on the A note.

A subordinate B note will be capitalized from the equity component of the QEI, (i.e. the NMTC equity). DCHE expects to offer extremely favorable rates and terms on the B note, interest rates will range from 0.5% to 1.5% on the B note, depending on the QALICB's or its sponsor's status as a nonprofit or for-profit entity, and b) the relative default risk of the project. All borrowers will be expected to repay at least some of the B note principal, with the amount determined by the borrower's (or its sponsor's) status as a nonprofit or for-profit entity and the projects' success in achieving the community benefits negotiated at closing. In general, DCHE expects nonprofit QALICBs to repay at least 2% of the B note principal and for-profits to repay at least 20% of the B note principal.

Fees Charged by DCHE

- 3% of QEIs, at closing in a NMTC leveraged transaction.
- 0.5% of QLICIs as an asset management fee due annually over seven years for each loan to the QALICB

DCHE has the sole and absolute discretion to change any (with the exception of Asset Management Fees) of these fees.

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VI. Threshold Criteria

Applicants shall meet each of these criteria

1. Property is in a NMTC eligible census tract
2. Property shall be at least one of the following eligible property types
 - a. Commercial Facility (office and/or retail)
 - b. Community and/or Recreational Facility
 - c. Single Family Development
 - d. Cooperative Housing
 - e. Mixed Use/Multifamily Housing with at least 20% of gross rental income from commercial activity
3. Property is located in area that qualifies under either item a or b below
 - a. Property location is in census tract with at least one of the following
 - i. 30% poverty or
 - ii. 60% Median Family Income or
 - iii. Unemployment rate at least 1.5 times the national unemployment rate
 - b. Property location is in a census tract with at least two of the following:
 - i. 25% poverty rate; median family income at or below 70% of area-wide median' or unemployment rate is 1.25 times the national average
 - ii. HOPE VI Redevelopment Area
 - iii. Federal Empowerment Zone or Enterprise Community
 - iv. Brownfield field as defined in 42 USC 9601
 - v. Project which has 60% or more of the owners, employees or customers qualify as Low Income Persons
 - vi. TIF Districts
 - vii. District designated redevelopment areas
4. Evidence of site control (any option must last at least six months from application or be extendable at the option of the developer.)
5. Evidence of the projects ability to close by November 30, 2015

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VII. Selection Criteria

The selection criteria will be used to evaluate Stage 1 and 2 applications.

30 Points - Development Team Capacity and Readiness to Close Transaction

Owner/Developer experience, financial capacity and performance on similar projects. Project readiness and community support.

30 Points - Financial Feasibility and Financing Structure

Evidence of commitments from financing sources and evaluation of financial projections, operating pro forma and overall financial feasibility. Capability to leverage other public and private sources. Equity contribution and deferment of development fees.

40 Points - Community Impact

Evidence of significant and measurement benefits for the local community and its residents. Such benefits may include the creation of quality jobs, especially for low –income individuals and/or residents of public housing; the provision of quality goods and services that respond to an unmet need in the community and ability to meet the investment criteria outlined in Section II - Allocation Plan. Experience and track record for successful implementation and ability to track community benefit outcomes.

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VIII. Application Certifications

DCHE Not Obligated to Close Financing

DCHE may from time to time, provide Preliminary Commitments in excess of the current availability of its NMTC Allocation amount, if DCHE determines, in its sole discretion, that it is prudent to do so based on anticipated “fall-out” rates for projects that have received Preliminary Commitments. DCHE will make every attempt to announce the availability of NMTC Allocation from time to time. The number of Preliminary Commitments approved is not intended to minimize uncertainty among developers regarding the availability of such allocation, but such approvals in no way obligate CURE to close a financing within any period of time, nor are they guarantee that the subject application will receive Final Board Approval.

Allocation Decisions Are Final

All NMTC Allocation decisions and awards by DCHE are final. Applicants have no right to an administrative or judicial appeal with respect to the actions taken by DCHE. Applicants expressly waive any and all rights to seek any type of legal remedy whatsoever if their Application does not result in the DCHE approval or award.

Indemnification

Applicant agrees to indemnify DCHE, DCHA and any Subsidiary CDE’s, their servants, agents, contractors and employees from any loss, cost, damage, claim, demand, suit, liability, judgment, and expense (including any attorney’s fees and other costs of litigation) resulting from the application for, review of and any decision to award or not to award NMTC.

No Liability

It is expressly understood and agreed that DCHE, DCHA and any Subsidiary CDE’s, their servants, agents, contractors and employees shall not be liable to the applicant, its partners, employees, agents, contractors and servants or to any person for any injury, loss or damage to any person or property concerning any matters arising out of, or in relation to the review, negotiations and determinations made pursuant to the application for NMTC

Allocation Plan Subject to Revision without Public Notice

The NMTC Allocation Plan is provide as general guidance to applicants seeking financing through the programs operated by DCHE. It has been provided for convenience, and DCHE is in no way bound by its provisions. DCHE reserves the right to revise, amend or rescind its NMTC Allocation Plan, in whole or in part, without prior notice to the public.

I certify and agree to the above conditions of this Application

By: _____

Date: _____

For: _____

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IX. Exhibits (click below for documents)

[Exhibit A- DCHE-NMTC Funding Application](#)

[Exhibit B- Stage2 Checklist](#)