



NASLEF NEWS

The Newsletter of the National
Association of State & Local
Equity Funds

Summer 2002 -- Volume VII, No. 2



NASLEF's Ninth Annual Conference

NASLEF's Ninth Annual Conference will be held September 18 - 20, 2002 in Cincinnati, Ohio. The conference is hosted by the Ohio Capital Corporation for Housing and it will be held at The Westin Cincinnati, 21 East 5th Street, overlooking historic Fountain Square in the heart of downtown. Room reservations must be made directly with the hotel. The NASLEF Conference rate is \$135 per night for single/double occupancy for a standard room. Call 1-800-WESTIN-1 to make room reservations.

Topics to be discussed at this year's conference include Construction Design Standards, Unique Partnerships, New Markets Tax Credits, Mixed-Income Developments, Preservation, Growing Asset Management Capacities, Development Case Studies, Introduction to Tax Credits, Investor Perspective, Long Term Operating Implications of Tax Credit Developments, Fund Growth and Diversification, and Year 15 Exit Strategies. This year's Plenary Session will include discussion of the Ernst & Young report on Affordable Housing Tax Credit Properties.

The Thursday evening (September 19th) special event will be dinner at the Newport Aquarium, which is located across the Ohio River in Newport, Kentucky. The Aquarium features 200 feet of underwater tunnels and 16 galleries showcasing more than 11,000 marine animals, including sharks, jellyfish, penguins and alligators.

Conference registration information is available online at www.NASLEF.org/news or contact **Julie Sonntag Newquist** at (510) 986-1350, or by e-mailing her at sunday@NASLEF.org.



ASSET MANAGEMENT CONFERENCE DRAWS 50 PARTICIPANTS

Homestead Capital welcomed 50 participants to the Fourth Annual NASLEF Asset Management Conference held at the Marriott Hotel in Portland, Oregon on April 18-19, 2002. The conference focused on risk management issues with respect to NASLEF members' portfolios.

Deborah Saweuyer-Parks, President and Chief Executive Officer of Homestead Capital and NASLEF President welcomed participants to the conference and thanked those who had traveled from the Midwest and the East to attend. She also acknowledged the Planning Committee that had worked diligently for four months to create an agenda that was both informative and substantive.

Saweuyer-Parks introduced the keynote speaker, Melanie Herman, Executive Director of the Nonprofit Risk Management Center based in Washington, D.C. Herman's speech addressed the balance between the risk and the benefit of asset management. She stressed that the role of asset management is critical to NASLEF's success—by carefully managing the assets and minimizing risk, projects will continue to thrive and house people of modest means.

The two-day conference offered two tracks that explained asset management issues from the perspective of the overall

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DEVELOPMENT *Profile*

HOUSING VERMONT

Green Mountain Seminary

The rehabilitation of Green Mountain Seminary in Waterbury Center, Vermont, typifies many of the developments that Housing Vermont undertakes— credit layering, multiple financing sources, community banks as direct placement investors, a challenging site and a dedicated local nonprofit partner.

The Green Mountain Seminary, a massive four-story wooden structure, was built almost one-hundred forty years ago as a religious academy for young adults. Shortly after the Seminary closed in 1906, the Town of Waterbury acquired the property and operated it as an elementary school. The school was closed in 1969 and the building was scheduled to be demolished until private individuals purchased and saved the structure. Although it was spared, the Seminary building was underutilized for many years and fell into serious disrepair. By 1998, the Green Mountain Seminary building, which is listed on the National Register of Historic Places, again appeared likely to be demolished.

In response to local requests, Housing Vermont and the Central Vermont Community Land Trust intervened and developed a plan to restore the building, bring new housing into the community, and overhaul the branch office of the library. Andy Broderick, President of Housing Vermont, said, “We understood from the outset that, while this project made good sense on several levels, it would require patience, commitment from the local community and numerous funding sources.”

The Green Mountain Seminary rehabilitation began in summer 2001. Opening in July 2002, the long-awaited development created 16 affordable family rental units. In addition, the popular Green Mountain Seminary branch of the Waterbury Library was refurbished and made handicap accessible. The adjacent land, owned by the Town, was being conserved for recreational use, including the renovation of a baseball field.



Almost \$2.9 million in funding was raised to complete the project. A total of eight federal, state, and local funding sources were needed. The variety of funding sources for Green Mountain Seminary Apartments reflects the range of community goals being met. U.S. Senator Jim Jeffords secured \$199,000 in federal HUD Economic Development

Initiative funding. The Vermont Community Development Program, through the Town of Waterbury, loaned \$346,700 for the project. The Town of Waterbury also loaned \$100,000 from its revolving loan fund.

The Vermont Housing and Conservation Board provided \$413,700 in state funds as well as an award of \$123,540 in

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NASLEF President:	Deborah Saweuyer-Parks
NASLEF NEWS Editor:	Mark Baldwin, Merritt Community Capital Corporation

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HOME money. The Vermont Housing Finance Agency provided a \$40,000 predevelopment loan and a \$1.6 million construction loan from the proceeds of a larger bond sale to Fannie Mae. Other funders included the Neighborhood Reinvestment Corporation and the Residential Energy Efficiency Program, a statewide resource created by the utility companies.

The project offered federal (4 percent bond) low income housing tax credits and Vermont housing tax credits as well as federal historic renovation credits. The Vermont credit is up to 25 percent, the qualified basis for five consecutive tax years. Housing Vermont raised a total of \$1.48 million in equity from two local banks—Community National Bank (total assets of \$288 million) and the Northfield Savings Bank (total assets of \$386 million).

“This is the type of project that might not be possible elsewhere,” Broderick explained. “We combined federal, state and historic credits in a small, multiuse, bond-financed rehab project with two community banks as the direct placement investors. This works in Vermont in large part because of the relationships which have built up among the parties and our successful track record. As we utilized Vermont banks, we were able to take advantage of the State credit.”



The apartments will remain perpetually affordable for residents and preserved as a valuable affordable housing resource for this small community. Monthly rents, which include heat, vary from \$425 to \$450 for a one-bedroom apartment to \$525 to \$600 for a two-bedroom apartment. Two apartments are fully handicapped accessible. The Town library pays a modest \$465 monthly rent for its 1,960 square feet of space.

During the restoration, many improvements were made to the Seminary and adjoining property. A new elevator was installed along with new heating, fire alarm, and sprinkler systems. Other building improvements included exterior siding restoration, a laundry facility, a new septic system, a new roof, construction of parking spaces, and landscaping. Central Vermont Community Land Trust will manage Green Mountain Seminary Apartments.

PROJECT PARTNER

Central Vermont Community Land Trust

Central Vermont Community Land Trust (CVCLT) is a membership-based nonprofit incorporated in 1987 to develop and manage affordable housing in central Vermont. CVCLT program areas include real estate development, as well as the purchase and rehabilitation of affordable rental housing and mobile home parks. CVCLT also administers a revolving loan fund and provides property management. CVCLT operates the Homeownership Center of Central Vermont, providing education and homebuyer assistance. CVCLT also provides consulting services to other nonprofits for the development of program space for their services.

CVCLT has a staff of 12 and a 15-member board of trustees with equal numbers chosen from the public sector, the general public, and representatives of residents in CVCLT-sponsored developments. CVCLT has assets of over \$7 million and an annual administrative operating budget of \$450,000. CVCLT is a chartered member of NeighborWorks.

NASLEF

**National Association of State & Local
Equity Funds**

c/o Merritt Community Capital Corp.

Julie Sonntag Newquist, Administrator

1736 Franklin Street, #600

Oakland, CA 94612

(510) 986-1350

(510) 986-1353 (fax)

www.NASLEF.org

The New Market Tax Credit Competition for a New Federal Subsidy

by
Herb F. Stevens
Nixon Peabody LLP

Background

On June 10, 2002, the Treasury Department announced the first competitive round for the allocation of tax credits under the New Markets Tax Credit (NMTC) program. The NMTC program, established by Congress in December 2000, provides a tax incentive for community development lenders and the capital markets to invest in low-income communities. The Community Development Financial Institutions Fund (CDFI), a branch of the Department of Treasury, administers the program and will hold competitions each year to determine which CDEs will be allocated tax credits.

CDFI issued a Notice of Allocation Availability (NOAA) on June 11, 2002 (67 Fed. Reg. 40112), along with the calendar year 2002 NMTC Allocation Application, and invited Community Development Entities (CDEs), and those entities seeking CDE designation, to submit applications to compete for tax credit allocations. During the first round, allocations of up to an aggregate total of \$2.5 billion in qualified equity investments in CDEs will be made. Currently, the CDFI has not set a cap on the size of the NMTC Allocation requests, although it reserves the right to award less than requested.

Application Information

- ◆ **Application Criteria:** The NOAA provides that each application for tax credit allocations will be reviewed by CDFI on a competitive basis. The applicants will be evaluated and assigned a maximum of 25 points in each of the following four categories: business strategy, capitalization strategy, management capacity, and community impact
- ◆ **Priority Points:** An applicant can earn additional "priority points" in the evaluation of its business strategy. The CDFI will give up to five additional points to any applicant with a record of serving disadvantaged businesses or communities. Additionally, an applicant may earn up to five points for making qualified investments in one or more businesses in which persons unrelated to an applicant hold the majority of equity interest.
- ◆ **"Master-Sub Applications."** Under the NMTC Program, CDFI will allow organizations to use a "Master-Sub Application." Accordingly, an applicant

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and its subsidiaries may collectively submit one application for an allocation of credits. This allows a nonprofit applicant to apply for a NMTC Allocation if it will control one or more for-profit subsidiaries and it intends to transfer all allocations it receives to those subsidiaries. Applicants do not need to form the subsidiary entities, or obtain CDE certification for these entities, prior to submitting the Allocation Application.

- ◆ **Important Dates:** In order to apply for an allocation of NMTCs, an applicant must either be certified as a CDE or submit an application for certification as a CDE no later than July 25, 2002. Applicants for credits must submit an online Allocation Application by August 29, 2002. The online applications, with accompanying instructions, will be available no later than July 17, 2002. Applicants who cannot submit an online application must notify CDFI by August 9, 2002. For additional information, contact Herb Stevens or David Schon in Washington (202) 585-8000 or Dave Kavanaugh in Boston (617) 345-1000.

NMTC and NASLEF Members *An Informal Survey*

NASLEF members were asked whether they functioned as Community Development Financial Institution (CDFI) and whether they planned on becoming certified as a Community Development Entity in order to apply for an allocation of New Market Tax Credits.

* **Midwest Housing Development Fund LLC** is a Community Development Financial Institution that operates in Nebraska, Kansas and Iowa. It began operations in April 2001, has raised \$700,000 in capital and has made one \$5,000 predevelopment loan. It has no current plans to become certified as a CDE or applying for a NMTC allocation. Midwest Housing Development Fund LLC is part of the Midwest Housing Equity Group.

* **New Hampshire and Maine Housing Investment Fund** is not a CDFI and has no current plans to participate in the NMTC program.

* **Ohio Capital Corporation for Housing** is in the process of applying to become a CDFI. It has been operating a predevelopment loan program for housing credit developers, either nonprofit or joint venture developers, for the past few years. OCCH recently formed a new subsidiary, Ohio Capital Finance Corporation, to take over this function. The loans in this program are typically paid off at construction loan closing. The current loan portfolio has 19 loans totalling more than \$800,000. OCCH plans to have its loan fund certified as a CDE, but it is not applying

for a first-round allocation of NMTCs. OCCH expects to have an involvement with the NMTC program and it is exploring various options such as serving as an investment fund conduit for its bank CDC partners.

* The **Texas Housing Finance Corporation** does not currently operate a CDFI, however, forming one is under consideration. It is also considering forming a CDE to take advantage of the NMTC program. THFC has no plans to apply for a first-round allocation of credits.

* The **Saint Louis Equity Fund, Inc.** recently formed the SLEF New Markets 2002 LLC, which has been certified as a CDE. It does not operate a CDFI. At press time it was unclear whether SLEFI's CDE would be submitting an application for first round NMTC. However, SLEFI does intend to pursue NMTC to make equity investments and/or business loans for commercial real estate and small business opportunities, and to provide financial counseling.

* **Michigan Capital Fund for Housing** does not currently operate a CDFI, however, it is applying to become certified as a Community Development Entity under the New Markets Tax Credit Program. It anticipates submitting an application for New Market Tax Credit during the first round and pursuing economic development in and around housing developments and mixed-use development.



Board President's Report

by
Deborah Saweuyer-Parks

The past few months have certainly brought an abundance of important developments to our industry. Two of those developments, the new Patriot Act and changing views of Intermediate Sanctions Rules, deserve particular attention.

Understandably, the events of September 11th and the high-profile collapses of firms like ENRON and WorldCom have become hot-button political issues. Reflecting concern about national security and deceptive financial practices, shifts in state and federal policy are bringing increased scrutiny and regulatory complexity to

our industry. The ramifications of these changes are of particular consequence to small and not-for-profit equity funds, which tend to employ some of the same accounting practices similar to those that have been misused for illegal purposes in recent months.

As the worldwide investigation into terror networks uncovered sophisticated money laundering operations, policy-makers searched for new ways to stem the flow of terror sponsorship dollars. The resultant USA Patriot Act (USAPA) requires "financial institutions" to be more vigilant with respect to guarding against money laundering and to know more about the activities of investors. Effective on April 24th, 2002, the definition of a "financial institution" required to meet the new provisions included businesses as divergent as jewelers, pawnbrokers, and even equity funds. A temporary six-month exemption extended the date of mandatory compliance for equity funds and similar businesses until October 24th, 2002. It is still unclear what will happen when the exemption expires, but it is advisable to alert your general counsel and watch for forthcoming determinations from the Treasury Department. Fines for failure to comply with USAPA could be as much as \$1 million.

The second interesting development in our industry stems from the ENRON debacle: IRS Intermediate Sanctions Rules governing nonprofit corporations' insider transactions are now likely to receive more attention. As many of you are no doubt aware, Section 4958 of Internal Revenue Code prohibits "excess benefit transactions" between 501(c) (3) organizations and "disqualified persons" who may exercise undue influence over the decisions of the organization. Members and associates of a nonprofit's board of directors are particularly at risk of incurring the 25 percent excise tax on "excess benefit" if they engage in financial transactions with the nonprofit before carefully considering the potential consequences. Fortunately, following three simple steps can help limit the exposure of your company and its board of directors:

1. Any transaction between the corporation and a "disqualified person" should be fully disclosed in advance to disinterested members of the board or a committee of the board.
2. Similar transactions by at least five similar organizations should be considered to determine that the proposed transaction is "comparable" to other, similar transactions.
3. The underlying facts and the board decision should be clearly documented.

The complexities of finance and policy can be consuming, but they cannot distract from the larger mission that we serve. Our business is essential to sustain the working families of America; we should attend to our daily efforts with pride and satisfaction in knowing that what we do is endowed with such purpose.



NASLEF PEOPLE

Midwest Housing Equity Group reports the addition of five new staff members. **Jason Main** joined MHEG as Corporate Finance Officer in June. Prior to joining MHEG he was employed as an auditor for Deloitte and Touche, LLP, at a local public accounting firm and a local business. He has a degree in Business Administration and Accounting from Hastings College. **Dan Garrett** joined the Iowa Equity Fund, L.L.C. as an Associate Development Director. Prior to his employment at the IEF, Garrett worked for a United States Congressman, several legislators and a nonprofit agency conducting its housing programs. He has a degree in History from Wartburg College. **Todd Schuiteman** joined MHEG as an Asset Manager in June. Previously, he worked as an Accounting Manager for Quality Living, Inc. Schuiteman holds an accounting degree from Northwestern College. **Shannon Bottorff** joined MHEG in July as a Corporate Accountant. She previously worked for a public accounting firm and is in the process of securing her CPA. Bottorff has a degree in Business Administration from Lutheran College. **Ann McFarland** began her employment with MHEG in May as a Compliance Specialist. Previously she worked as a Tax Credit Assistant Manager at a housing authority in western Nebraska.

The Saint Louis Equity Fund, Inc. reports that **Suzanne Fury** is leaving the Fund in August to pursue her Master Degree in Higher Education. **Jim Helein**, who has been with SLEF since January 2001, will assume the role of Director of Asset Management. **Mike Duffy** has joined the staff as a Project Analyst. He previously worked as a Development Analyst for the Ohio Capital Corporation for Housing. Finally, SLEFI welcomes a new Receptionist, **Camille Townsend**, to its staff.

Michigan Capital Fund for Housing reports that **Keith G. Broadnax** has joined the agency as a Development Coordinator. He is a former Senior

Program Officer for the Local Initiative Support Corporation. Broadnax has a Masters degree in Urban and Regional Planning from Ball State University. **Leslie A. Fabiano** joined MCFH as an Asset Manager. She is formerly of P.M. One, Ltd, is a certified LIHTC Property Manager, and has over 15 years experience as a Property Manager. MCFH also reports that two positions have recently been created at the corporate level. They are Chief Operating Officer, filled by **Tom Edmiston**, and Director of Community Development Services, filled by **Beth Hunter**. Edmiston was formerly employed by Statewide Michigan LISC, and he is assisting in the overall programs and operations of the corporation. Hunter is recently retired from the Low Income Housing Tax Credit division of the Michigan State Housing Development Authority. In the position of Director of Community Development Services, she will provide technical review of tax credit applications, assistance with compliance issues, predevelopment financing and provide access to other resources such as New Markets Tax Credits.



NASLEF AT NCSHA

Representatives from several equity funds helped staff the NASLEF exhibit booth at the recent National Council of State Housing Agencies Conference held at the Marriott Hotel in San Francisco, June 27 - 28, 2002. Pictured above are Julie Sonntag Newquist, NASLEF's Administrator, and Gary Schwam of the Virginia Community Development Corporation.

The NASLEF exhibit is available to be displayed at member fund events. Members are also encouraged to submit 8" x 10" color photographs of their investment properties that can be incorporated in the NASLEF display. Contact Julie Sonntag Newquist for more information.

A NEW NAME

TheoPro Compliance & Consulting

After 14 years in the compliance industry, **Ruth Theobald's** firm, Affiliated Compliance & Consulting, Inc. has a new name and an enhanced focus on Section 42 compliance issues. "TheoPRO Compliance and Consulting Inc.," is the firm's new name and along with a new logo, Theobald is now publishing "The Compliance Practitioner." This publication provides current state-specific data on compliance issues, achievements of tax credit projects around the country, profiles of industry leaders, and features on compliance challenges and solutions. TheoPro continues to provide a variety of services including compliance training, file management, approval and review, and audit services. The firm's address remains 21150 W. Capital Drive, Suite #3, Pewaukee, WI 53072. For more information contact TheoPro Compliance and Consulting at (877) 783-1133, or access the firm's Internet website at www.icomply42.com.

A NEW GAME

Midwest Housing Equity Group

An exciting change has taken place for us this year with our name/structure change from the Equity Fund of Nebraska, Inc. to Midwest Housing Equity Group, Inc. (MHEG). We expanded into Kansas and Iowa and the name Equity Fund of Nebraska did not reflect the expansion of the company into those neighboring states.

With our success in creating an equity fund in Kansas, we had a long-term goal of creating a separate equity fund in Iowa. We did not imagine that forming the organization, hiring staff and renting office space would be accomplished within the first year. However, the Iowa Equity Fund, L.L.C. is operational and has the support it needs within the state to become very successful.

Each state equity fund has maintained its own identity and has been set up as single member limited liability companies with MHEG being the sole member. With MHEG being the sole member, the 501(c) (3) status carries forward also. Each state has its own Management Committee (Board of Directors) and Executive Director. Therefore, we have Equity Fund of Nebraska, L.L.C., Kansas Equity Fund, L.L.C. and Iowa Equity Fund, L.L.C. Underwriting, compliance and asset management are being done at this time by MHEG staff.

In addition to the above entities, MHEG has developed Midwest Housing Development Fund, L.L.C., our Community Development Financial Institution (CDFI).

Much of 2001 was spent putting the management committee, strategic plans and loan procedures together to meet the requirements of the Department of Treasury. In December 2001, the first predevelopment loan was made and the application for certification was submitted. In 2002 other investors will be sought, along with an award from treasury so additional loans can be made.

While the rest of the economy was slowing, MHEG has continued to grow. We added staff, but it turned out that we couldn't add them quickly enough. We have been blessed with a wonderful staff that is willing to work hard, understand our growing pains, and deal with the unexpected. Many times staff have found themselves doing more than one job. For a complete list of new staff working for MHEG, see the **NASLEF People** column on the preceding page. For more information, contact **Mary Lash Anderson**, MHEG's Director of Compliance at (402) 334-8899.

ASSET MANAGEMENT CONFERENCE

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portfolio and the individual project. The sessions included:

Portfolio Level

- § Transitioning Projects from Acquisition to Asset Management
- § Financial Review – Determining Portfolio Health/Watch Lists
- § Challenges of Service Enriched Housing
- § 8823 Audit Guide Overview and its Impact on "Best Practices"
- § Year 15 Issues

Property Level

- § Assessing the Capacity of a Property Management Company
- § Managing the Manager: Files/Physical Asset
- § Fair Housing
- § Creating a Safe Environment: Defensible Space
- § Current Risk Trends

The Conference's featured speakers included Cathelene Coughlin, Fair Housing Institute; Sr. Patricia Harney, Mercy Housing; Kent Rinehart, Internal Revenue Service; John Epstein, Wells Fargo; Mike Silver, Deloitte & Touche, LLP; Mike Chellis, Preston Gates Ellis, LLP; Suzanne Vice, California Tax Credit Allocation Committee; Al Alvarez, Housing Authorities Risk Retention Pool; and Frank Silkey, Oregon Housing Community Services.

Next year's Asset Management Conference will be held in Kansas City, Missouri, hosted by the Kansas Equity Fund.

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Homestead Capital
Housing Vermont
Indiana Capital Fund for Housing
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c/o Merritt Community Capital Corporation
1736 Franklin Street, Suite 600
Oakland, CA 94612

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