APPENDIX F: BRIDGE FINANCING FOR TAX CREDIT PROJECTS

As part of its Tax Credit program, CDFA is now offering bridge financing to projects that receive an award of CDFA Tax Credits.

There are a variety of circumstances in which an organization that receives a CDFA Tax Credit award may be in the position to begin project implementation but lacks readily available financial resources to do so. It may be advantageous to the project to be implemented as soon as possible because:

- There is a critical need to provide the service that is the subject of the tax-credit award.
- The cost of construction increases dramatically over time.
- The organization has secured all other (non-CDFA) funding/pledges/financing needed to complete the project.
- The organization is depending on future operating funds that cannot be fully realized until the project is completed and the facility is in operation.

As an example, an organization that is awarded CDFA Tax Credits in June of 2019 could receive tax credits for SFY 20 (July 1, 2019 – June 30, 2020) and/or SFY 21 (July 1, 2020 – June 30, 2021). Even if the organization secured pledges for the entire tax-credit award amount, that organization might not receive all of the cash from the tax credits until up to two years after the award. Such a delay could significantly affect the organization's ability to complete the project on time and on budget.

To address this important timing and funding gap, CDFA will offer bridge loans to organizations that receive tax credits, under the following conditions:

- The tax-credit award is greater than $75,000.
- It is advantageous for the project to get started before all of the committed funds needed to complete the project are available.
- Staff/underwriting review of the tax-credit application determines that the applicant has the financial and organizational capacity to take on the temporary debt.

Bridge loan parameters:

- Amount: Minimum $60,000, up to the total tax-credit award*.
- Term: The bridge-loan term will be tied to the timing of the tax-credit award (up to two years plus one calendar quarter), for up to the net tax-credit award amount.
- Interest rate: 4% (Interest would accrue only on drawn funds.)
- Repayment: Interest to be billed and paid quarterly. Principal repayment to be withdrawn from cash received by CDFA from project donors. No pre-payment penalty. Interest will be recalculated as principal is 'repaid' (through redemption of donor pledges to the project).
- Priority: Priority for bridge financing will be determined by staff based on the percentage of committed tax-credit pledges secured by the organization (regardless of the year of the pledge) and overall project need.

* CDFA will consider expanded bridge financing (above and beyond the net tax-credit award amount) to organizations that have other committed future contributions to tax-credit projects (such as capital-campaign pledges). This 'expanded financing' would be available ONLY if the organization meets CDFA underwriting standards for total debt needed (in excess of the net tax-credit award amount), and ONLY for the same term as tax-credit bridge financing (two years plus one calendar quarter).

Bridge loan process:

- A proposed term sheet would be provided to the organization with the tax-credit award letter. If the organization accepts the loan terms, final review and approval would be required pursuant to the CDFA Credit Policy. Final loan documents generally would occur within sixty days after an organization notifies CDFA that it will accept the loan offer.
- Once a bridge loan is approved by CDFA and final loan documents are executed, the organization would be able to draw funds on a monthly basis, up to the amount of secured tax-credit pledges (regardless of the SFY of the tax-credit pledge).
- 'Interim' draws on tax-credit awards would only be permitted through the bridge-loan program for tax-credit awards greater than $75,000. For awards of $75,000 or less, interim draws on secured pledges may be allowed at the discretion of the CDFA project manager