APPENDIX D: BRIDGE FINANCING FOR TAX CREDIT PROJECTS

CDFA offers bridge financing to qualifying Tax Credit awardees. An organization that receives Tax Credits may be ready to begin project implementation but may lack readily available financial resources to do so. It may be advantageous for an awardee to begin implementation, as soon as possible, because:

- The awarded project serves a critical need.
- 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 can only be fully realized when the project is completed and operational.

As an example, an organization that is awarded CDFA Tax Credits in June of 2022 could receive tax credits for State Fiscal Year (SFY) 23 (July 1, 2022 – June 30, 2023) and/or SFY 24(July 1, 2023 – June 30, 2024). Even if the organization secured pledges for the entire tax-credit award amount, the awardee might not receive all of the proceeds from the tax credits for up to two years after receiving 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 offers 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: From a minimum of $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).
- 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 Principal repayment to be withdrawn from cash received by CDFA from project donors.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 CDFA 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 (i.e. greater than 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 CDFA's Credit Policy. Final loan documents generally would be circulated 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.