Maximizing Tax Credits

HOW THE CITY CAN SUPPORT LOW INCOME HOUSING TAX CREDIT AWARDED PROJECTS AND SPEED THE PROCESS TO BUILD NEW AFFORDABLE HOUSING

What is the Low Income Housing Tax Credit Program?

Competitive 9% Housing Tax Credit Program

- Developers constructing or rehabilitating affordable housing statewide can apply for an allocation of 9% Housing Tax Credits. Due to the demand for 9% credits, OHFA typically funds only 25 to 30 percent of all applications submitted. In addition, because of the cost of applying for the program and the extensive compliance requirements, the program is best suited for rental housing developments with 25 or more units.

Non-Competitive 4% Housing Tax Credit Program

- Developers constructing or rehabilitating affordable housing statewide can apply for an allocation of 4% Housing Tax Credits. The Internal Revenue Code (IRC) requires that developments awarded 4% Housing Tax Credits must utilize multifamily bonds financing for more than 50 percent of the total project cost.

How Tax Credits Are Structured

Federal Government

Gives authority to issue LIHTCs

Reports on creation of housing

State

Determines Awards

Oversees all aspects

Applies for resources

Performs all necessary steps
to create and manage
housing in compliance

Local (Project)

Investor

Delivers compliant occupancy

Stream of tax credits
each year

Gives $ Up-Front

Why Housing Tax Credits are Needed

The cost to construct / create housing leads to rents too high for "Low Income Households" to "Afford"

Conventional Apartments

Equity
(20%)

Debt
(80%)
Supported by
"market rate" rents

Income Restrictions + Rent Restrictions = Affordable Apartments

<u>Low Income Household (LIH)</u>
A household earning 60%
or less of "Area Median Income"
(defined for the MSA by HUD each year)

<u>Affordable</u>
Rent is set
to be 30% of
household income

Equity
generated by tax
credits sold for
cash (60%)

Debt supported by
LIHs Rent to
Project (40%)

Funds generated by housing tax credits are <u>used</u> for construction, but the LIHTCs are <u>earned</u> through compliance with income & rent restrictions during occupancy

Income & Rent Restrictions

2021 Area Median Income By Household Size for Hamilton County
(Established annually by HUD)

Household Size	30% AMI	50% AMI	60% AMI
1 Person	$17,940	$29,900	$35,880
2 Person	20,520	34,200	41,040
3 Person	23,070	38,450	46,140
4 Person	25,062	42,700	51,240
5 Person	27,690	46,150	55,380
6 Person	29,730	49,550	59,460

2021 Rent Limits by Unit Size for Hamilton County
(Established annually by HUD based on income limits)

Units	30% AMI	50% AMI	60% AMI
1 Bedroom	$448	$747	$897
2 BR	576	961	1,153
3 BR	666	1,110	1,332

Current Gap Funding Tools

- OHFA HDAP
- OHFA EBL
- City of Cincinnati funds
- State and Federal Historic Tax Credits
- Federal Home Loan Bank AHP
- County funds (depends on location and type of project)
- PSH specific funding
- RAD
- TIF

LIHTC Timeline

February: LIHTC Application Due

- City provides conditional financial commitment letter

May: OHFA announces Awards

May – September – work toward final application to OHFA

September to April of following year: Finalize finances, schedule and execute closing, begin construction

The Importance of an Abatement to a LIHTC Project

- Most deals today require multiple gap sources above the LIHTC equity in order to work. The tax abatement is one piece but does not alone “close the gap.”
- The abatement decreases the highest operating cost of a project, allowing the project to assume additional debt to complete the project financing.
- A project may monetize that savings into additional debt, for example...
  - a project with a 15-year 67% CRA tax abatement can support $1,000,000 in debt to meet most lender requirements
  - Without the abatement, that same project can only support $440,000 in debt, creating an additional gap over an above the one that exists to meet the required rents under LIHTC.
  - The completion of the CRA process must be done before closing & construction, so It's timing is critical.

Policy Proposal

City Council Should…

Develop a uniform CRA tax abatement for LIHTC awarded projects.

Grant the Administration authority to approve abatements that fit within this framework without additional legislative approval.

How It Helps?

Streamline the administrative process

Because we know that there are a myriad of touch points with multiple City departments (DCED, Law, B&I, Planning, etc.) between LIHTC award and project closing/construction beginning, streamlining one of those touch points will allow projects to go to closing faster, have more certainty on construction timing, and deliver the new affordable units our community needs. There is also a time savings for the City Administration across multiple departments

Attracting Additional LIHTC applications

By making clear that a successful award will receive a specific abatement, developers who may have previously been on the fence about pursuing a LIHTC award will be more likely to apply, increasing the amount of tax credits awarded in our region.

Alignment with Regional Goals

HOUSING OUR FUTURE

Strategies for Cincinnati and Hamilton County

MAXIMIZE COMPETITIVENESS FOR STATE AND FEDERAL FUNDING. Currently, Cincinnati is less competitive than other Ohio cities for state and federal affordable housing funds. We must collaborate as a region to secure greater allocations of Low-Income Housing Tax Credits (LIHTC), block grants, and other resources.

LOCAL AND STATE POLICIES. The City of Cincinnati and Hamilton County should work together to increase their competitiveness for the federal Low-Income Housing Tax Credit (LIHTC), which is awarded according to the Ohio Housing Finance Agency's Qualified Allocation Plan (QAP). They should support affordable housing developers in pursuing not only 9% tax credit deals, but also more challenging 4% tax credits deals, by implementing a systematic approach to filling the financing gap created by the lower level of LIHTC subsidy. Local actors should also support efforts to create a state-level tax credit for affordable housing development, which are being spearheaded by the Ohio Housing Council.

EMBRACING GROWTH
PRINCIPLES FOR REGIONAL HOUSING

OUR REGION'S ZONING AND DEVELOPMENT POLICIES ARE AN OBSTACLE TO HOUSING GROWTH RATHER THAN A TOOL TO ADDRESS IT.

Widespread incentives to increase private investment have helped accelerate new development throughout the region. Incentives remain an integral tool to pursue our broad housing goals. Governments have finite resources and have the right to prioritize the types of developments they want to see in their jurisdictions. Creating incentive guidelines that encourage more dense, affordable and transit-accessible development are wholly appropriate, and we encourage communities to tailor their policy solutions in this way. But those incentive guidelines should also ensure enough flexibility to award other worthy projects too, such as densely constructed single-family housing. Governments at every level, local, state and federal, should consider how they might expand incentive opportunities that are predictable, transparent and based on the merits of the project to develop new housing throughout their jurisdictions.

Thank You!

Conceptual LIHTC Project (Reference)

Conceptual LIHTC Project	40	Residential Units
Sources of Funds	No CRA	with CRA
1st Mortgage *	$ 440,000	$ 1,000,000
Soft Sources (FHLB or other)	$ -	$ -
City HOME	$ -	$ -
Deferred Developer Fee	$ -	$ -
LIHTC Equity	$ 8,500,000	$ 8,500,000
GAP	$ 1,060,000	$ 500,000
Total Sources of Funds	$ 10,000,000	$ 10,000,000
Uses of Funds		
Acquisition	$ 250,000	$ 250,000
Hard Costs	$ 7,200,000	$ 7,200,000
Soft Costs	$ 1,350,000	$ 1,350,000
Developer OH and Fees	$ 1,200,000	$ 1,200,000
Total Uses of Funds	$ 10,000,000	$ 10,000,000

*Note: Example 1st Mortgage with CRA will lead to negative YR 16 cash flow when CRA benefit expires

In order to stay cash flow positive, the example project would require extended abatement period