

Introduction to the Low Income Housing Tax Credit Program

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OFFICE OF HOUSING

LIHTCs 101

- Purpose and background
- Virginia Qualified Action Plan (QAP)
- Credit types
- How the program works
- The details
- Credit allocation timeline
- Challenges and opportunities
- Past and future projects

What is the LIHTC Program?

- The Low-Income Housing Tax Credit program is the federal government's primary vehicle for assisting the development and preservation of affordable rental housing
 - ▣ LIHTCs provide an infusion of private investor equity to affordable rental projects in exchange for an offset of the investor's future tax liability
 - ▣ Equity reduces the debt required to fund projects to enable landlords to charge rents affordable to households earning up to 60% of the area median income (AMI)
- Funds new construction *and* acquisition and rehabilitation

Who do LIHTC units serve?

□ 2016 AMI (Area Median Income)

Household Size/AMI	1-Person	2-Person	3-Person	4-Person	
30% AMI	\$22,850	\$26,100	\$29,350	\$32,600	— ARHA/DCHS
40% AMI	\$30,440	\$34,760	\$39,120	\$43,440	} Rental assistance
50% AMI	\$38,050	\$43,450	\$48,900	\$54,300	
60% AMI	\$45,660	\$52,140	\$58,680	\$65,160	
80% AMI*	\$60,880	\$69,520	\$78,240	\$86,880	} Ownership assistance
100% AMI	\$76,100	\$86,900	\$97,800	\$108,600	

Up to:

Sources: 2016 HUD Income Limits for 30% and 50% AMI for Washington-Arlington-Alexandria, DC-VA-MD HUD Metro Fair Market Rent Area); FY 2016 Multifamily Tax Subsidy Project Income Limits for 60% AMI; and Office of Housing for 40% AMI and Mathematical 80% AMI (figures have not been rounded)

*Mathematical

A Little Background

- Part of the Internal Revenue Code (Section 42)
- Administered by state finance agencies
 - ▣ Virginia Housing Development Authority (VHDA)
- Annual per capita allocation distributed through competitive process to eligible projects
 - ▣ \$2.35/per capita in 2016
 - In Virginia, approximately \$19.7 million in per capita credits in 2016

Why is the Qualified Action Plan (QAP) important?

- Governs the allocation of available tax credits
 - ▣ geographic distribution
 - ▣ characteristics of eligible rental developments based on state preferences, priorities, and needs
- 2016 VA QAP:
 - http://www.vhda.com/about/Planning-Policy/Pages/LIHTC-QAP.aspx#.Vz8_3PkrKUK
 - Some changes anticipated in Fall 2016
 - Some items are discretionary to VHDA Director

Credit Types

- **9% (competitive)** applied to eligible construction and “substantial” rehabilitation costs
- **4% tax credits** (non competitive) applied to new construction and substantial rehab projects
 - Must be paired w/tax-exempt bond financing
 - May be used for acquisition of existing developments as long as the cost of rehabilitation is \$10,000 or more per unit
- **4% and 9% credits** can be combined

How LIHTCs work

IRS issues credits



VHDA administers and allocates 9% credits through competitive process based on Qualified Action Plan



Developer “sells” credits to investor (or pool of investors) to secure equity financing; enters into 15-year limited partnership with investor(s) with opportunity to acquire property at end of compliance period



Investors receive tax credit against future federal taxes over 10 years (current pricing exceeds \$1 in NoVA market)

The details...

- Credits are calculated based on “eligible basis” ≠ total development cost
- Projects compete in pools:

Pool type	%
Non-profit	15%
Local Housing Authorities	15%
New Construction	15%
Northern VA	18.02%
Northwest/North Central VA	9.2%
Richmond	11.63%
Tidewater	17%
Balance of State	14.15%

Costs included in the eligible basis must be depreciable:

- Hard construction costs
- Soft costs (architectural and engineering costs, developer fees, construction loan interest)

Non-depreciable costs that are excluded include:

- Land
- Interest on permanent loans
- Insurance and property taxes
- Tax credit, relocation, and other fees

The details (continued) . . .

- Minimum threshold scores for 4% and 9%
- Cost caps for new construction and rehab
 - ▣ New construction or adaptive reuse – \$387,809/unit (+ up to an additional \$43,090/unit if there is underground or structured parking)
 - ▣ Acquisition/rehab: \$338,564/unit
- Relocation assistance
- To be eligible for consideration, 20% of units must be at 50% AMI or 40% at 60% AMI
 - ▣ Most projects are now 100% eligible
- Rents (commonly adjusted for utilities) are set at 30% of income
- Operating restrictions (affordability provisions) are in place for 30 years or more (voluntary)

Allocation Timeline



Challenges and Opportunities

- High cost of NOVA projects, including land and development site plan requirements, affect competitiveness
- Rehab vs new construction
- Program preferences and priorities can be challenging and QAP can change
 - ▣ Rental subsidies and deep affordability
 - ▣ Special populations
 - ▣ Other
- Limit to city funding
- Proposed federal legislation:
 - ▣ Program name change to Affordable Housing Tax Credits
 - ▣ Stabilize and increase 9% credit funding



Past Projects



9% (competitive) tax credit projects

Project Name	Owner	Tax Credit Units	Project Type
Alexandria Crossing at Old Dominion	ARHA	36	New construction/rehab
Alexandria Crossing at West Glebe	ARHA	48	New construction
Beverly Park	Wesley HDC	33	Rehabilitation
Braddock / Whiting / Reynolds	ARHA	48	New construction
Chatham Square (former Samuel Madden Homes Downtown)	ARHA	52	New construction
Elbert Avenue	CLI	24 out of 29	Rehabilitation
Jackson Crossing	AHC	78	New construction
Old Town Commons (former James Bland)	ARHA	134	New construction
Pendleton Park	ARHA	24	Acquisition/rehab
Quaker Hill	ARHA	60	Acquisition/rehab
Station at Potomac Yard	AHDC	44 out of 64	New construction

4% (non-competitive) tax credit projects

Project Name	Owner	Tax Credit Units	Project Type
Alexandria Station	Private	290	Rehabilitation
Arbelo and Longview Apartments	AHDC	75	Rehabilitation
Brent Place	Private	196 out of 207	Rehabilitation/ acquisition
Fields of Alexandria	Private	304 out of 306	Rehabilitation/ acquisition
Fields of Old Town	Private	98	Rehabilitation
Lynhaven Apartments	Wesley HDC	28	Rehabilitation/ acquisition
ParcView	Wesley HDC	120 out of 149	Rehabilitation/ acquisition
Potomac West	Private	45 out of 60	Rehabilitation/ acquisition

Future Projects

- St. James Plaza (approved during 2015 cycle)
- Gateway Apartments (competing in 2016 cycle)
- Carpenter's Shelter
- Church of the Resurrection
- Ramsey Homes
- Future ARHA Redevelopment Projects



Panel Discussion



Questions?