

2022 Proposed Affordable Housing Tax Credit Policy

Council Worksession
Tuesday, November 2, 2021

Victor Turner, Director
Neighborhood Services Department

Agenda

- What is a “Housing Tax Credit”?
- How is a 4% Tax Credit different than a 9% Tax Credit?
- Results of our meeting with developers
- 2022 Affordable Tax Credit Policy Recommendations

What is a “Housing Tax Credit”?

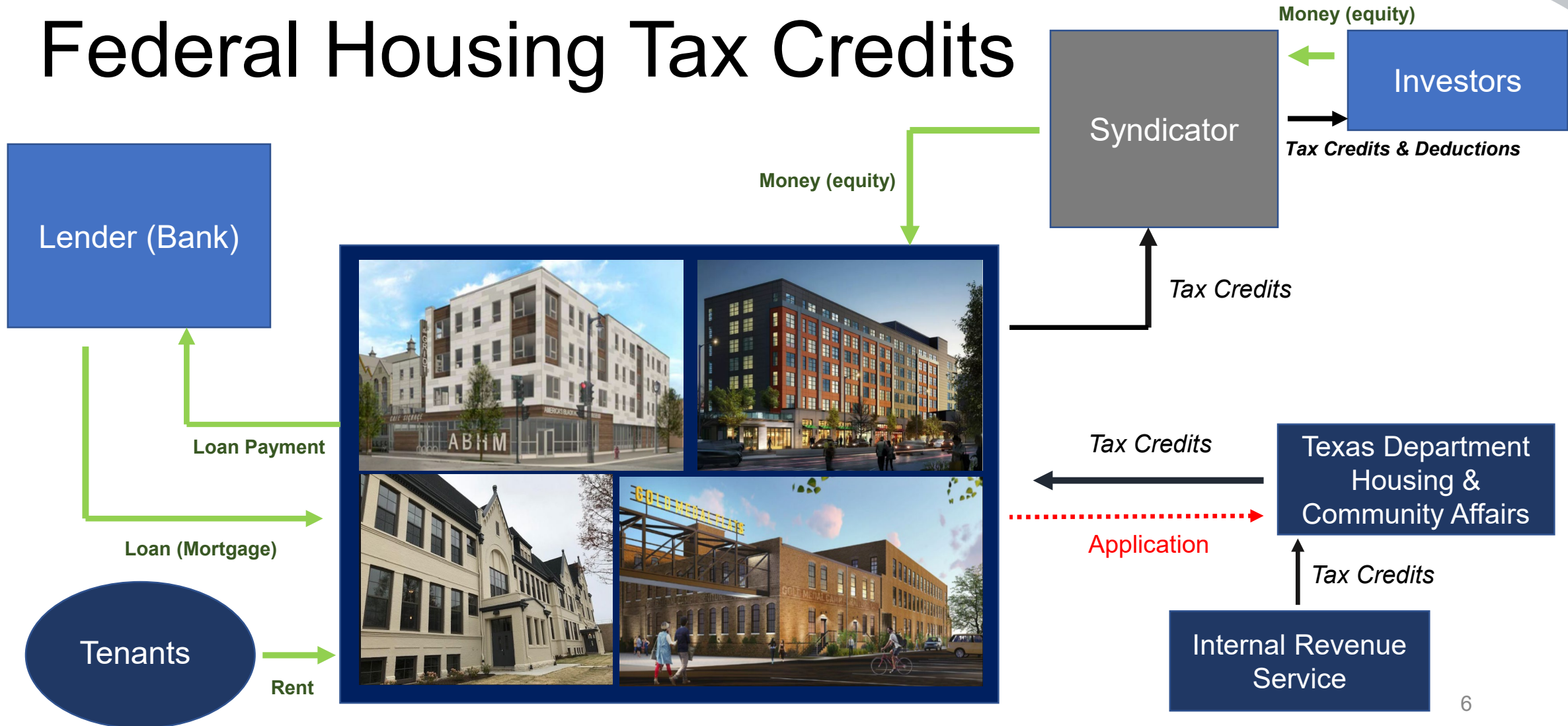
Federal Housing Tax Credits

- Aka “LIHTC” or “Section 42” or “Low Income Housing” or “affordable housing tax credits”
- The **Low Income Housing Tax Credit** is a federal tax credit created by President Reagan and Congress in the Tax Reform Act of 1986 designed to encourage private sector investment in the new construction, acquisition, and rehabilitation of rental housing affordable to low-income households.
- Provides a private developer a tax credit subsidy (in the form of **project equity**) to construct new rental buildings or renovate existing buildings.
- The subsidy/equity offsets the costs of renting the units at lower rents.

How does Fort Worth get Tax Credits?

- U.S. Treasury issues tax credits to states annually
- Developers apply to Texas Department of Housing and Community Affairs (TDHCA) for 9% and 4% tax credits
- State legislature sets the Qualified Allocation Plan (QAP) which is the scoring document for tax credits and sets underwriting standards
- Regional Allocation – CFW is “Region 3 – Urban”
- QAP provides direction to municipalities on how they can assist developers in scoring more points

Federal Housing Tax Credits

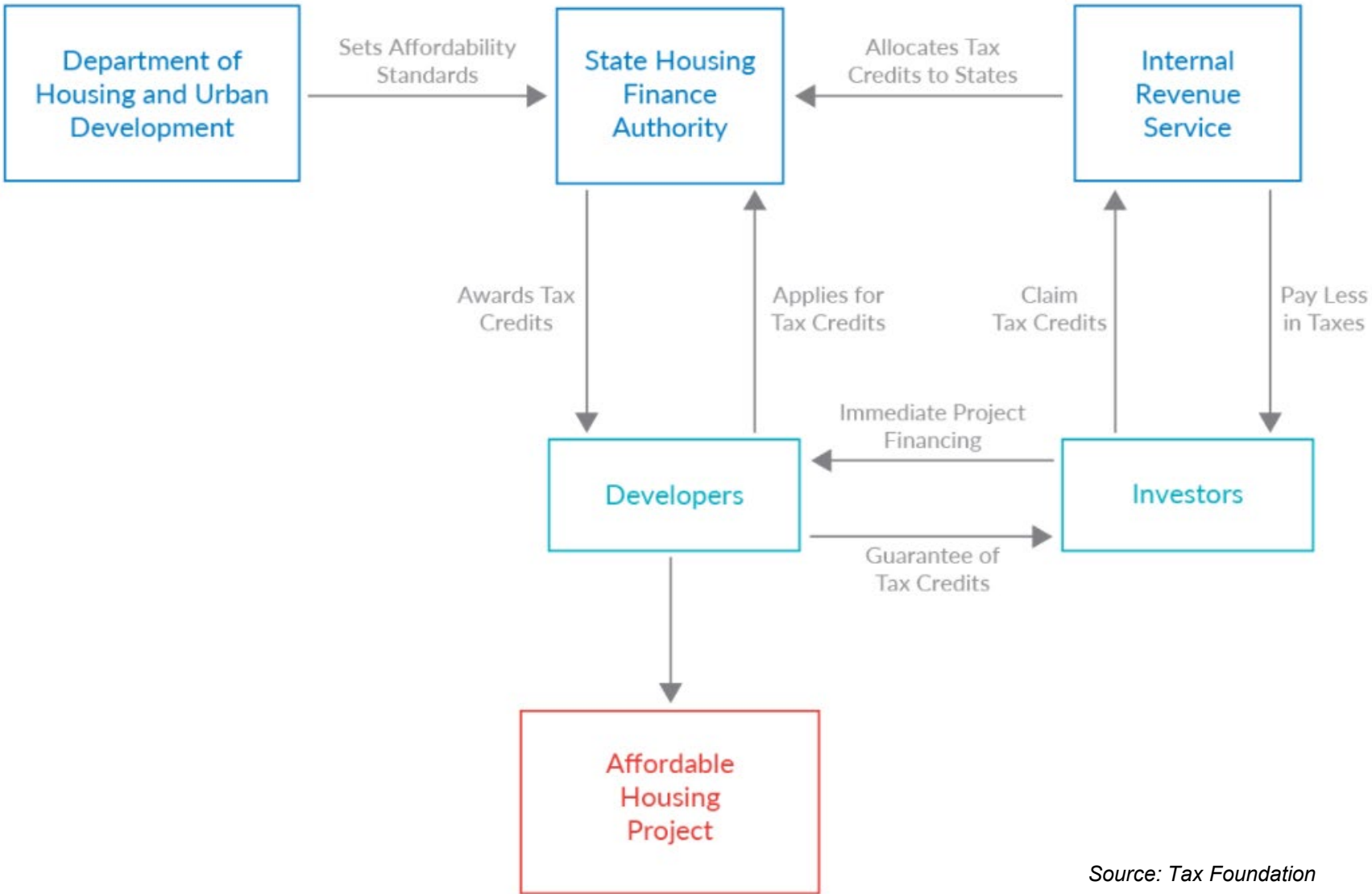




Low-Income Housing Tax Credit Involves Multiple Public and Private Actors

Structure of Low-Income Housing Tax Credit

Federal Housing Tax Credits

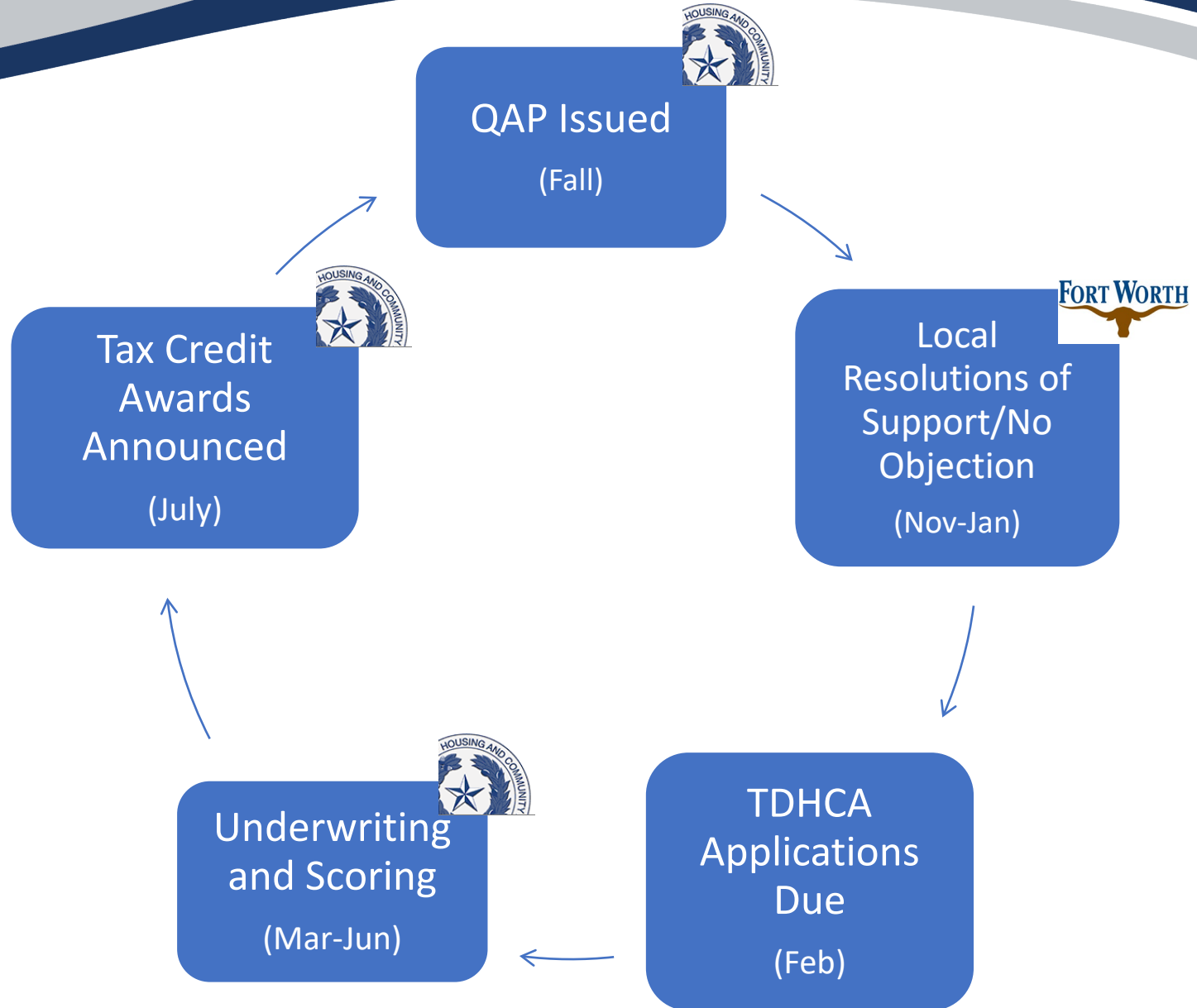


Source: Tax Foundation

9% Tax Credits

- Generally available for new construction or extensive rehabilitation
- Each year for 10 years, a tax credit equal to 9% of a project's **qualified costs** of construction may be claimed
- In 2015, Congress set a “floor” for the IRS monthly rate for 9% tax credits to ensure that a 9% credit generates enough project equity
- 9% typically yields a tax credit worth 70% of the present qualified development costs over 10 years and is called a 70% credit by the IRS.
- A good rule of thumb is that the **9 percent credit** covers about **half** of a project's cost
- Qualified costs = (development costs – land and costs covered by grants) x % of total units for low-income households or total square footage of low income units.
- **More tax credit equity can be received if there are more low income units.**

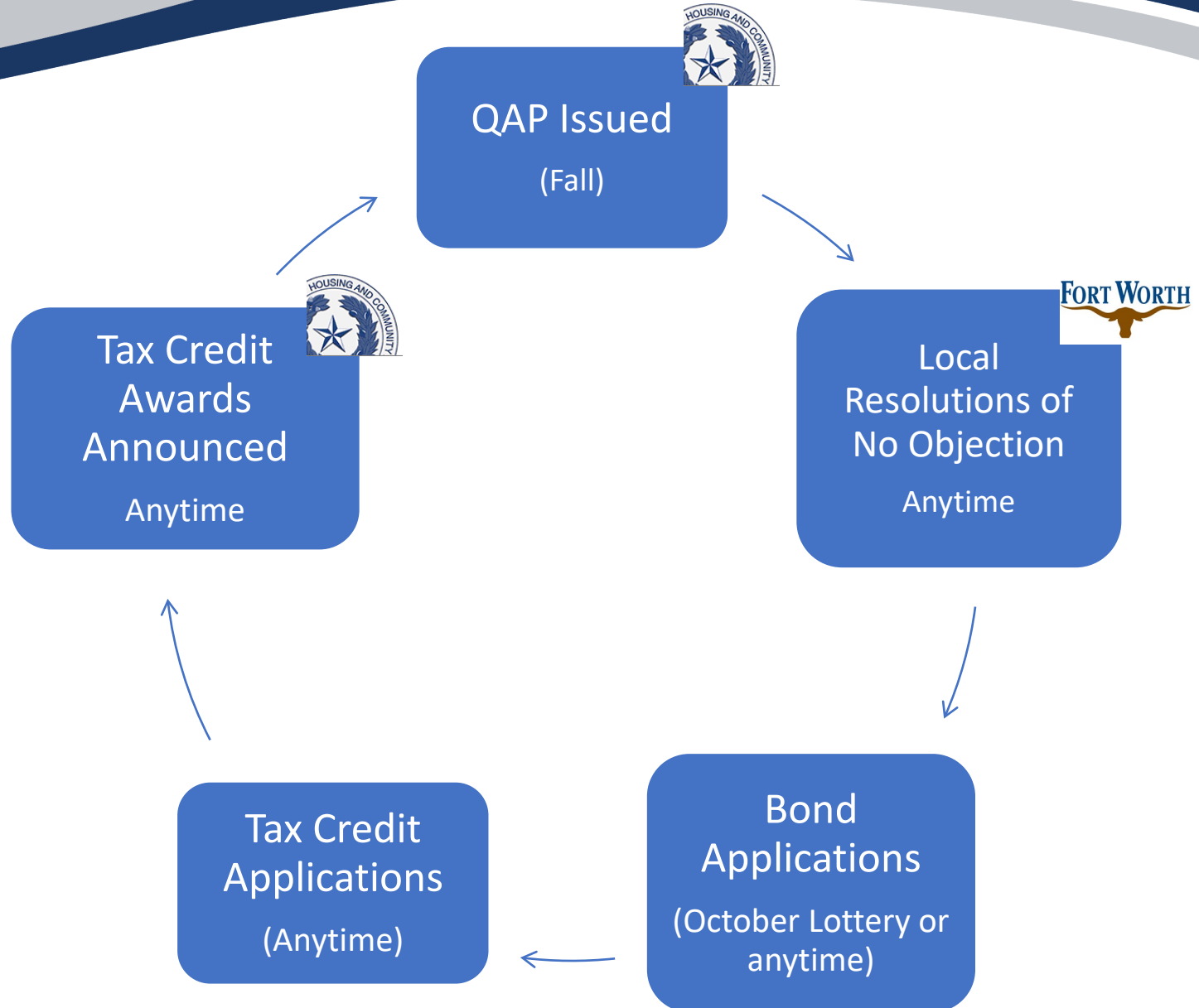
9% Process



4% Tax Credits

- Generally used only for rehabilitation of existing buildings or by developers doing new construction financed through tax exempt bonds
- Each year for 10 years, a tax credit equal to 4% (or the monthly rate set by the IRS) of a project's qualified costs of construction may be claimed
- A 4% tax credit yields approximately 30% of the present qualified development costs, but this has decreased significantly in recent years due to lower interest rates and federal tax reform (often called 30% credit)
- A good rule of thumb is that the **4 percent credit** covers about a **quarter** of a project's cost
- In 2021, Congress set a "floor" for the IRS monthly rate for 4% tax credits to ensure that a 4% credit generates enough project equity
- Qualified costs = (development costs – land and costs covered by grants) x % of total units for low-income households or total square footage of low income units.
- **More tax credit equity can be received if there are more low income units**

4% Process



9% Tax Credits vs 4% Tax Credits

This example assumes two identical Section 42 LIHTC new construction projects, both with 100% of the units designated as affordable (low-income) units.

	9% LIHTC	4% LIHTC
Total development costs	\$21,000,000	\$21,000,000
<u>Less</u> : Ineligible costs, including land	<u><1,000,000></u>	<u><1,000,000></u>
Eligible basis (Total LIHTC eligible costs)	20,000,000	20,000,000
Applicable fraction (% of affordable units)	<u>X 100%</u>	<u>X 100%</u>
Qualified basis (Eligible basis x Applicable fraction)	20,000,000	20,000,000
Applicable Percentage (AFR)	<u>X 9.00%</u>	<u>X 4.00%</u>
Annual Credit	1,800,000	800,000
Total Credit (Annual credit x 10)	\$18,000,000	\$8,000,000

Tax Credit Developments in Fort Worth

Year	4%	9%
2021	Cowan Place (\$1,650,000 + \$20M bond)	Magnolia Lofts (\$1,500,000) Clifton Riverside (\$1,500,000)
2020	Shady Oaks Manor (\$654,862) – Elderly Housing	Palladium Fain Street, Ltd. (\$1,377,102)
2019	Stallion Ridge (\$1,292,387)	Mistletoe Station (\$1,500,000) The Vineyard on Lancaster (\$1,330,273) – Supportive Housing Everly Plaza (\$1,439,065) – Elderly Housing Cielo Place (\$1,447,760) Sunset at Fash Place (\$1,198,485) – Elderly Housing Churchill at Golden Triangle (\$1,500,000)
2018	Patriot Point (\$1,270,859) Prince Hall Gardens Apartments (\$347,353) Sphinx at Sierra Vista Senior Village – Elderly (\$1,625,337) Sabine Place Apartments (\$341,364)	Columbia Renaissance Square II (\$1,500,000) – Elderly Housing
2017	Casa Inc (\$993,773) Alton Park (\$1,226,649) Campus Apartments (\$1,254,609)	Palladium Fort Worth (\$1,500,000)
2016	Mercantile Apartments (\$1,522,255) Broadmoor apartments (\$1,522,365) Stallion Point (\$1,181,410)	Avondale Farms Senior (\$1,500,000) – Elderly Housing Harmon Senior Villas (\$1,470,360) – Elderly Housing The Standard at Boswell Marketplace (\$1,500,000)

What does the QAP say about City Affordable Housing Policies?

- Mayor and all elected member of the Governing Body of the municipality must be **notified**
- **For 9%: Points awarded** based on *level of support* from municipality : 17 Points for resolution of support; 14 Points for a resolution that has no objection; 0 Points for no letter
- **For 9%:** 1 Point for a **commitment of development** funding of more than \$500
- **For 4%:** Applications must contain a **resolution of no objection** (but municipality not required to provide resolutions)
- **For 4% and 9%:** A local public hearing must be held
- Neighborhoods and local officials must be **notified**
- Any policy must **comply with Fair Housing Act**, must be consistent with the Analysis of Impediments to Fair Housing Choice and other housing policies

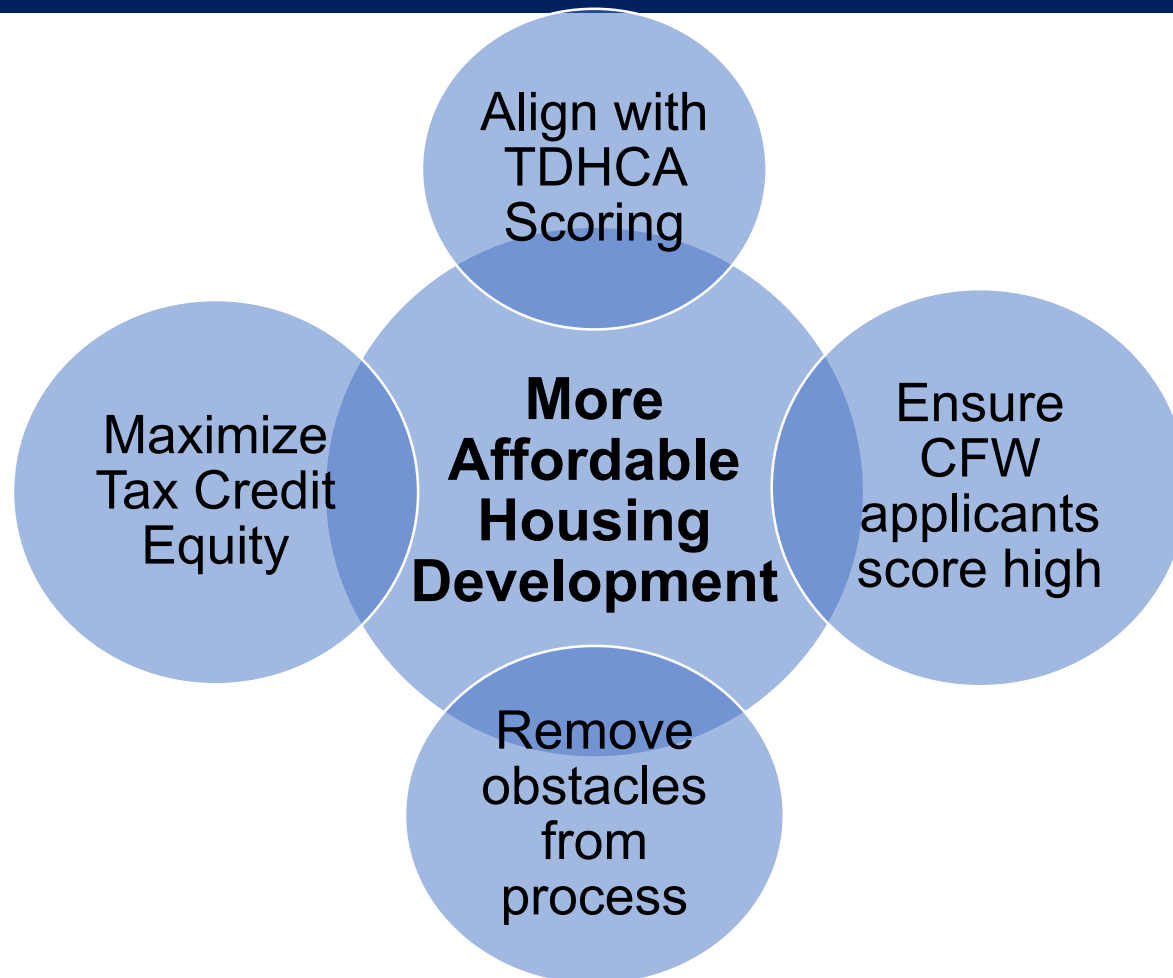
CFW Tax Credit Policy Principles

**Mixed Income
Housing**

**Notifications
to
Governmental
Units**

**Neighborhood
Engagement**

CFW Tax Credit Policy Goals



Meeting with Tax Credit Developers

- Wednesday, October 20th
- **Received strong feedback on Market Rate requirement**
- Developers say that tax credit development is hard right now with lower corporate tax rates are driving tax credit pricing down & unstable pricing on construction materials
- Developers say that 4% tax credit deals do not cash flow with a market rate requirement (i.e., *can't get tax credit equity on market rate units*)
- Developers say that that bond market in Texas is extremely oversubscribed & requiring market rate units means Fort Worth projects can't be in "Tier 1" bond position (i.e., *won't receive bonds if you aren't in Tier 1*)
- Developer say that TDHCA rules makes income averaging on 9% tax credit deals difficult, so market rate units cannot be "averaged" into the other 90% of the affordable units in Texas
- Developers said that removing our market rate requirement would greatly improve tax credit scoring for **both** 4% and 9% deals at TDHCA because the QAP is currently scoring in favor of deeply affordable developments

Recommended City Policy for 9% Competitive Tax Credits



Proposed 2022 9% Requirements: Resolutions of Support

THREE requirements:

Higher income: Minimum 10% of total units are $\geq 70\%$ AMI

Very low income: Minimum 10% of total units are 0-30% AMI

Located in TDHCA-defined High Opportunity Area: mixed-use growth center, city revitalization area, or CNI Neighborhood

AND



AND



AND

Proposed 2022 9% Requirements: Resolutions of No Objection

TWO requirements:

Higher income: Minimum 10% of total units are $\geq 70\%$ AMI

Very low income: Minimum 10% of total units are 0-30% AMI

AND



AND

Commitment of Development Funding

9% Resolution Requirements

Council discretion

Resolution of Support required

Provides partial waiver of development fees

\$2,500

Proposed 2022 9% Policy Changes (from 2021)

Policy Item	2021	2022
Market Rate Requirement	Minimum 10% units must be market rate (100% AMI or above)	Minimum 10% units at or above 70% AMI
PSH Units	Either 5% PSH units OR 10% 0-30% AMI Units	Removed PSH option
High Opportunity Area	Included federal Opportunity Zones as eligible for Resolutions of Support	Removed Opportunity Zones
Commitment of Development Funding	Provided a partial or full waiver of development fees	Clarified that we are only offering a partial waiver of development fees

Recommended City Policy for 4% Non-competitive Tax Credits



Proposed 2022 4% Requirements: Resolutions No Objection

ONE requirement:

Very low income: Minimum 10% of total units are 0-30% AMI

Proposed 2022 Policy Changes – 4% Non-Competitive

Policy Item	2021	2022
Resolution of local support	Governor waived application requirement for resolutions of local support and public hearings during pandemic	Draft QAP says that applications must include a resolution of no objection (Note: municipalities not <i>required</i> to provide resolutions, but must hold public hearings)
Market Rate requirement	Required Minimum 10% Market rate units	Removed Market Rate Requirement
Market Rate Waiver	Allowed a waiver of market rate units if located in a severely distressed census tract	No longer needed if no market rate requirements
PSH Units	Either 5% PSH units OR 10% minimum 0-30% AMI Units	Removed PSH option

Recommended City Policy for All Tax Credit Applications



Notification Requirements

Written notifications required 45 days before application is due

Councilmember **must be** notified

City staff **must be** notified:
Neighborhood Services & Community Engagement

Superintendent of Schools must be notified

Registered Neighborhood/HOA must be notified

One information session with registered associations by December 24, 2021 (Notify associations at least 7 days in advance)

Proposed 2022 Policy Changes – All Projects

Policy Item	2021	2022
Neighborhood/HOA Information Sessions	2 meetings required	1 meeting required & must be held prior to application deadline
Concerted Revitalization Plan Letters		<p>Provided only if required by TDHCA (current QAP draft eliminates this requirement)</p> <p>If two or more developments are in one CRP area, only one development may receive a letter</p>
Seeking Funds from City or FWHFC	No mention in policy	Applicants are required to declare intent to seek City or FWHFC funds in their resolution application; contains process by which limited City and FWHFC funds may be awarded to 4% and 9% HTC developments

Applications & Policy

<http://fortworthtexas.gov/neighborhoods/>

Programs

 <p>Community Action Partners <small>Serving all of Tarrant County</small></p>	 <p>Cowtown Brush-up</p>	 <p>Fair Housing</p>	 <p>Facade Improvement Program</p>
 <p>Fort Worth Housing Finance Corporation</p>	 <p>Grant Fund Proposals & Reports</p>	 <p>Homebuyer Assistance Program (HAP)</p>	 <p>Lead Safe</p>
 <p>Rising Stars <small>YOUTH LEADERSHIP ACADEMY</small></p>	 <p>Empowerment Zones (NEZ)</p>	 <p>Neighborhood Improvement Strategy</p>	 <p>Priority Repair</p>
 <p>VITA <small>FREE INCOME TAX PREPARATION</small></p>	 <p>EMERGENCY RENTAL ASSISTANCE</p>		

- Nov. 23

- [Rising Stars program sets teen on potential career path](#)
- [Don't stress: Get rent help now](#)
- [Looking for rent help? Funding is still available](#)
- [City public Wi-Fi expanding into five neighborhoods](#)

Public Notices

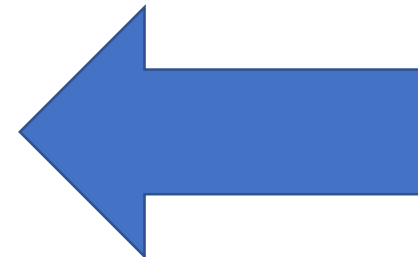
- [Las Vegas Trail Neighborhood Transformation Update](#)
- [2021-2022 Annual Action Plan Details & Meetings](#) (PDF, 72KB)
- [CDBG Tier II Allocations Public Notice](#) (PDF, 47KB)

Housing Updates

- [2021 Housing Tax Credit Application](#) (PDF, 97KB) [\(Excel\)](#) (PDF, 47KB)
- [2021 Housing Tax Credit Questions & Answers](#) (PDF, 51KB)
- [2021 Housing Tax Credit Revitalization Areas](#) (PDF, 197KB)
- [2021 Housing Tax Credit Policy](#) (PDF, 153KB)

Podcasts

[Go Time in Fort Worth with Mayor](#)



2022 HTC Policy Timeline

DATE	ACTIVITY
October 20, 2021	HTC Developer Forum (Completed)
October 22, 2021	Developer deadline to submit policy questions/comments (Completed)
October 29, 2021	Answers to developer questions posted to the website (Completed)
November 9, 2021	Council consideration & approval of Proposed 2022 Policy
November 17, 2021	Deadline to submit notifications (45 days ahead of submittal)
December 24, 2021	Deadline to host at least 1 neighborhood information session
December 31, 2021	Deadline for developers to submit application to Neighborhood Services
January/February 2022	Staff recommendations presented at City Council Work Session
February 2022	City Council consideration & approval of resolutions



Thank You!



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