Introduction to the Low Income Housing Tax Credit Program
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)**

<table>
<thead>
<tr>
<th>Household Size/AMI</th>
<th>1-Person</th>
<th>2-Person</th>
<th>3-Person</th>
<th>4-Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>30% AMI</td>
<td>$22,850</td>
<td>$26,100</td>
<td>$29,350</td>
<td>$32,600</td>
</tr>
<tr>
<td>40% AMI</td>
<td>$30,440</td>
<td>$34,760</td>
<td>$39,120</td>
<td>$43,440</td>
</tr>
<tr>
<td>50% AMI</td>
<td>$38,050</td>
<td>$43,450</td>
<td>$48,900</td>
<td>$54,300</td>
</tr>
<tr>
<td>60% AMI</td>
<td>$45,660</td>
<td>$52,140</td>
<td>$58,680</td>
<td>$65,160</td>
</tr>
<tr>
<td>80% AMI*</td>
<td>$60,880</td>
<td>$69,520</td>
<td>$78,240</td>
<td>$86,880</td>
</tr>
<tr>
<td>100% AMI</td>
<td>$76,100</td>
<td>$86,900</td>
<td>$97,800</td>
<td>$108,600</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Pool type</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-profit</td>
<td>15%</td>
</tr>
<tr>
<td>Local Housing Authorities</td>
<td>15%</td>
</tr>
<tr>
<td>New Construction</td>
<td>15%</td>
</tr>
<tr>
<td>Northern VA</td>
<td>18.02%</td>
</tr>
<tr>
<td>Northwest/North Central VA</td>
<td>9.2%</td>
</tr>
<tr>
<td>Richmond</td>
<td>11.63%</td>
</tr>
<tr>
<td>Tidewater</td>
<td>17%</td>
</tr>
<tr>
<td>Balance of State</td>
<td>14.15%</td>
</tr>
</tbody>
</table>

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

- Applications due: March
- Preliminary rankings: early May
- Final rankings: late May
- Final rankings review and approved by VHDA Board: June
- Allocation of credits accepted by developer: July
- Reservation of credits and closing: November
- Construction to be completed within 2 years of allocation
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

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Owner</th>
<th>Tax Credit Units</th>
<th>Project Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexandria Crossing at Old Dominion</td>
<td>ARHA</td>
<td>36</td>
<td>New construction/rehab</td>
</tr>
<tr>
<td>Alexandria Crossing at West Glebe</td>
<td>ARHA</td>
<td>48</td>
<td>New construction</td>
</tr>
<tr>
<td>Beverly Park</td>
<td>Wesley HDC</td>
<td>33</td>
<td>Rehabilitation</td>
</tr>
<tr>
<td>Braddock / Whiting / Reynolds</td>
<td>ARHA</td>
<td>48</td>
<td>New construction</td>
</tr>
<tr>
<td>Chatham Square (former Samuel Madden Homes Downtown)</td>
<td>ARHA</td>
<td>52</td>
<td>New construction</td>
</tr>
<tr>
<td>Elbert Avenue</td>
<td>CLI</td>
<td>24 out of 29</td>
<td>Rehabilitation</td>
</tr>
<tr>
<td>Jackson Crossing</td>
<td>AHC</td>
<td>78</td>
<td>New construction</td>
</tr>
<tr>
<td>Old Town Commons (former James Bland)</td>
<td>ARHA</td>
<td>134</td>
<td>New construction</td>
</tr>
<tr>
<td>Pendleton Park</td>
<td>ARHA</td>
<td>24</td>
<td>Acquisition/rehab</td>
</tr>
<tr>
<td>Quaker Hill</td>
<td>ARHA</td>
<td>60</td>
<td>Acquisition/rehab</td>
</tr>
<tr>
<td>Station at Potomac Yard</td>
<td>AHDC</td>
<td>44 out of 64</td>
<td>New construction</td>
</tr>
</tbody>
</table>
4% (non-competitive) tax credit projects

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