



# City of Austin

## Neighborhood Housing and Community Development

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DATE: February 3, 2015

TO: Mayor and Council Members

FROM: Betsy Spencer, Neighborhood Housing and Community Development Office

SUBJECT: Information regarding the 2015 Competitive 9% Low Income Housing Tax Credit Cycle; role of the City of Austin

The purpose of this memorandum is to provide information about the State of Texas 9% Low Income Housing Tax Credit Program as well as the role of the City of Austin as it relates to the program. In addition, this memorandum provides the process coordinated by the Neighborhood Housing and Community Development to initiate items for action by the Austin City Council. Staff has scheduled items for council consideration on the February 12, 2015, Council Agenda.

### ***Items for City Council Action:***

Staff will be recommending that City Council approve Resolutions of Support for Austin applications that meet certain established criteria. Please note that by recommending support for the application, the developer may submit his/her application to the Texas Department of Housing and Community Affairs. Staff has coordinated with the Agenda Unit so that each development proposal has three necessary action items to complete the requirement by the Texas Department of Housing and Community Affairs as it relates to the 9% Low Income Housing Tax Credit Program: two action items necessary by the Austin City Council (Resolution of Support and a Resolution of Funding Commitment contingent on a tax credit award by the State) as well as one Action Item by the Austin Housing Finance Corporation (approval of the amount of funds contingent on tax credit awards to meet the State's funding threshold).

These action items are currently reflected on the February 12, 2015, draft Austin City Council Agenda and the February 12, 2015, draft Austin Housing Finance Corporation Agenda. Please note the number of items on the February 12<sup>th</sup> Agenda are related to the six development entities that have signaled the intent to apply to the State for the 9% tax credit program (See attachment providing details of the six developments and development entities). The applications can be found on the City of Austin's Web site at: <http://www.austintexas.gov/page/fy-14-9%E2%80%9315-housing-applications>

Staff recommends that each proposed application for the Low Income Housing Tax Credit Program receive a Resolution of Support, recognizing that only three or four developments in this region of the state typically will receive an allocation of tax credits.

This program and funding through the State of Texas is one of several resources and tools the City can access to address affordable housing in Austin. The resolution is included in the application that each applicant submits to the Texas Department of Housing and Community Affairs

The Low Income Housing Tax Credit Program developments increase the supply of affordable housing for low income families, persons with disabilities, seniors and veterans. They help ease the shortage of affordable rental housing, attract private investment in affordable housing through tax credits, and create jobs with a positive economic multiplier effect that lasts well beyond completion of construction.

There is also the unique opportunity to leverage resources, thus stretching limited resources even further. In 2014, the City of Austin leveraged an additional \$45 million, with a commitment of only \$5.7 million for Low Income Housing Tax Credit Program developments, a leveraging ratio of nearly \$8 to \$1.

Without a Resolution of Support, the Low Income Housing Tax Credit Program applications that would otherwise be competitive are highly unlikely to score enough points to receive an award of tax credits, resulting in fewer units of affordable housing for the City of Austin and its residents. See Attachment A for a list of developers seeking Resolutions of Support for their proposed developments and applications being prepared for submission to the Texas Department of Housing and Community Affairs. Draft resolutions have been prepared for each and will be provided as attachments to the Request for Council Action.

***Low Income Housing Tax Credits Program Information:***

Each January, the Texas Department of Housing and Community Affairs (TDHCA) begins its competitive cycle to award Low Income Housing Tax Credits (LIHTC) to proposed multi-family residential developments scoring the highest in each state region. Austin is in Region 7 which includes Travis and the surrounding counties. This tool offers the ability to leverage funds available through the State of Texas and can be useful to address Austin's housing gap of 48,000 units affordable to renters earning less than \$25,000 annually (Housing Market Analysis, 2014: <http://austintexas.gov/page/reports-publications>).

The rules and scoring criteria for Low Income Housing Tax Credits applications are governed by a document known as a Qualified Allocation Plan (QAP). The Qualified Allocation Plan is revised each year by Texas Department of Housing and Community Affairs with public input and approved by the Governor. The statutory deadline for Low Income Housing Tax Credit applications is February 27, 2015. Because of that deadline, the Neighborhood Housing and Community Development Office will be submitting a Request for Council Action (RCA) for the February 12<sup>th</sup> meeting.

Analogous to federal tax credit programs, such as the Renewable Energy Investment Tax Credit which provides tax credits to incentivize investment in and development of renewable energy facilities, the Low Income Housing Tax Credit Program is a financing mechanism for the development of multi-family rental housing. It requires a specified minimum percentage of units be affordable to low-income households.

The program is governed by the Internal Revenue Code and offers investors (typically banks and other large institutions) the opportunity to purchase tax credits to offset other taxes. When a developer receives an allocation of tax credits and sells them to an investor, the sale generates approximately 70% of the financing needed to fund the proposed development. The funds generated are equity for the development, and not debt. In exchange, the investor is allowed to use the credits to offset other taxes over a 10-year period.

The percentage of affordable units in a tax credit property is specified in a restrictive covenant between the owner and Texas Department of Housing and Community Affairs. The restrictive covenant is commonly known as a Land Use Restriction Agreement or LURA, and typically is in effect for a period of 30 years. The Texas Department of Housing and Community Affairs monitors each property for physical condition and to ensure compliance with the terms of the LURA with respect to tenant incomes and the amount of rent being charged to low-income households.

Since the Low Income Housing Tax Credit Program is competitive, there are scoring criteria worth varying amounts of points. The second largest single scoring criterion can be achieved through Local Government Support, Section 11.9(d)(1)(A) of the 2015 QAP. It states that “Within a municipality, the Application will receive: (i) seventeen (17) points for a resolution from the Governing Body of that municipality expressly setting forth that the municipality supports the Application or Development.”

For more information about the Low Income Housing Tax Credits, please find a Frequently Asked Questions document attached to this memorandum as well as available on the Texas Department of Housing and Community Affairs’ Web site at: [www.tdhca.state.tx.us/multifamily/faqs-htc-basics.htm](http://www.tdhca.state.tx.us/multifamily/faqs-htc-basics.htm).

Please contact me if you have any questions.

cc: Marc A. Ott, City Manager  
Bert Lumbreras, Assistant City Manager

Attachments:

- Chart: Developers seeking Resolutions of Support, funding commitments
- Low Income Housing Tax Credits Frequently Asked Questions
- Information Graphic: Low Income Housing Tax Credit Program