NEIGHBORHOODS NOW

HAND, Inc.

November 10, 2015

Affordable Housing 101

Hamilton County Area Neighborhood Development

Home is the nicest word there is.
-Laura Ingalls Wilder

There is nothing more important than a good, safe, secure home.
-Rosalyn Carter

Hamilton County, why does Affordable Housing matter?

- HAND addresses the housing needs of low- and moderate-income individuals, families and senior citizens in Hamilton County. HAND does this by providing affordable housing options through the development of rental properties and assisting residents in obtaining homeownership.
- How is low and moderate income defined and what are developers resources for gaining funding for development of housing for those members of our community who work but earn incomes below Hamilton County Area Median Income of $69,700?
- 1 in 5 households in Hamilton County are paying more than one-third of their income on housing – a level that's generally defined as "cost burdened."
- Hamilton County residents face significant financial burdens with housing, such as seniors, Millennials recently graduated from college with high education debt, and working families that are both low and middle income.
- As our population grows and ages what plan is in place to use resources already available to provide housing that is vital to sustainability of our community?
- Our primary focus today will be related to Low Income Housing Tax Credits and their impact on development of Affordable Housing in Hamilton County.

There's no place like home. Hamilton County, who is left out?
What is a 30% to 60% AMI?

Area Median Incomes

Income Limits

All affordable housing programs provided by or through the government have maximum income limits to qualify for assistance. These income limits are typically derived from the Area Median Income (AMI), the theoretical family income of the average household in a given geography.

The AMI is updated each year for each geographical area taking into consideration numerous economic indicators. The geographical areas used for establishing the AMI are either Metropolitan Statistical Areas (MSA's) or counties.

Hamilton County is in the Indianapolis, IN HUD Metro FMR Area MSA. The 2015 Area Median Income for a family of four in Hamilton County is $69,700.

The income limits used for Section 8, public housing, Low Income Housing Tax Credits, the HOME program and other Federal programs all are derived from the HUD defined AMI.

Low Income Housing Tax Credit Income Limits

60% AMI | 50% AMI

Persons							
1	2	3	4	5	6	7	8
$23,850	$27,250	$30,650	$34,050	$36,800	$39,500	$42,250	$44,950

Affordable housing provides rental rates that do not create cost burdens to our working neighbors.

- Medical technicians
- Teachers
- Local government administrative support
- US Postal Service employees
- Landscape & public works supervisors
- Shift supervisors at big box retailers
- Industrial line supervisors
- Hotel, fitness & recreation managers
- Trade apprentices
- Retail, bank and food services managers
- Consistent workforce wage earners

LIHTC, Section 42 Affordable Housing
The Nuts & Bolts

- Low Income Housing Tax Credit (LIHTC) Program enacted by Congress in 1986 as section 42 of the Internal Revenue Code
- Section 42 provide approximately $6 Billion in housing assistance annually
- Since 1986 more than 2.4 million housing units have been developed
- IRS allocates <u>federal tax </u>credits to state housing agencies based on population
- Project sponsors apply through a competitive process for the tax credits from the <u>state HCA's</u>
- State agencies award LIHTC's through a point system, points being awarded based on the state's priorities
- Qualified Allocation Plans focus on needs within each state
- Private capital and market discipline provided by LIHTC investors, lenders, and developers combined often makes LIHTC-financed housing described as the most successful affordable rental housing production programs offered by the federal government

Section 42 Development, Private Equity & Income Tax Credits. The Dollars & Cents.

- To qualify for LIHTC, a project must meet QAP requirements
- Project sponsors use the tax credits to raise equity from private investors
- Equity investment reduces debt burden on the tax credit property making it financially feasible to offer qualifying residents lower, more affordable rents
- Tax credits are calculated as a percent of costs incurred (not all expenses are eligible for credits) and are claimed annually over a 10 year period
- Developments must stay in compliance and serve lower income residents for 15 year and generally into an extended use period
- LIHTCs provide equity equal to present value of either 70% (a 9% credit) or 30% (a 4% credit) of the eligible cost
- Financial institutions can improve their CRA rating by participation in the financing of local developments
- Often developments are initiated by a community sponsor

The Bricks and Sticks, before credits are allocated who are you serving and what are you building?

- Qualified Allocation Plans for LIHTC

1. Application for credits is highly competitive
2. Annual application process with IHCDA
3. Allocation criteria is published in advance and is specific to population housing needs

- How do QAP's change to meet needs of the population?

1. Shift from rural development to rehab of existing structures
2. Focus on energy efficiency and sustainability
3. Identifying specific needs within the population (lowest income, individuals with children, aging population and special housing needs.)

- Quality Counts

1. Developers are held to high quality standards and on-going compliance requirements.

Commons at Springmill
Herman & Kittle, Inc
Non-Profit Partner, CAGI
66 Units, 30% to 50% AMI

Affordable developments, challenges in going from plan to pro forma through extended use.

- Highly competitive process to win credits
- Affordable land in areas that meet QPA requirements
- Stigma and challenges from neighboring developments
- Heavy compliance requirements regarding operational reporting and physical integrity of the site
- Long term commitments, 15 year minimum plus extended use period
- Developments are built to run lean, maintaining high occupancies and max rental rates are key to maintaining cash flow

Where to learn more:

www.hud.gov
www.in.gov/ihcda
www.handincorporated.org
www.naahg.org

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