Summer Institute
July 17-20, 2019

NEW FUNDING SOURCES FOR AFFORDABLE RENTAL HOUSING – TIF AND NEW STATE AND LOCAL SUBORDINATE LOANS

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TAX INCREMENT FUNDING AND REAL ESTATE AND OTHER TAX RELIEF

A. In some jurisdictions **tax increment funds** can provide critical gap funding for affordable rental projects.

Pending Project: St. Paul, Minnesota 99 units

- Under Minnesota's TIF Act, a housing tax increment financing district adopted a tax increment financing plan to close a gap between the total development costs and the other sources available to pay them.
- Funds raised by the Housing and Redevelopment Authority ("HRA") from tax increment levies are pledged by the HRA over 25 years to repay a taxable TIF loan.
- The $4.1 million TIF loan is expected to provide gap funding for almost 20% of the roughly $25 million total development cost of the project.
- The TIF loan imposes occupancy restrictions, but they are generally no more restrictive than the restrictions customarily imposed by the tax-exempt debt and 4% LIHTC financing.

B. In a number of states, if proper steps are followed and the borrower entity is properly structured, the units, or the affordable units in a project, will be **exempt from real estate taxes**, which often run 1% per year or more.

- **California**: 100% real estate tax exemption on affordable units. Bring in a non-profit "managing general partner" with at least 5 or 6 of 10 major managerial functions. Developer general partner can maintain effective overall control.

- **Texas**: a 100% real estate tax exemption is available if a housing authority or other public body is the sole general partner. The developer becomes a special limited partner with substantial control rights. Land is owned by the political subdivision and leased to the borrower. In the alternative, a 50% real estate tax exemption may be available if certain non profit corporations ("CHODO") are brought into the ownership.

C. Other forms of **tax or fee relief** – from **sales taxes**, **recording** and transfer fees and other accommodations may contribute important funding – **good developers always identify and negotiate these sources on the front end**.

MAJOR NEW STATE AND LOCAL INITIATIVES PROVIDING SUBORDINATE LOAN FUNDS FOR AFFORDABLE RENTAL HOUSING

California

- The annual California state low-income housing credit amount will be increased to $500,000,000 beginning in 2020 and every year thereafter for new construction and existing buildings. Of the $500,000,000 total, $200,000,000 may be allocated to mixed-income housing for households up to 120% of AMI.
- A total of $1.75 billion of new state funds will be allocated to jumpstart housing production in local jurisdictions and regions statewide. This includes technical assistance to develop plans and implement short- and long-term housing goals, including the establishment of regional housing trust funds.
- The 2019 California state budget allocates an additional $1.0 billion to fight homelessness, including $300,000,000 in regional planning allocations that may be used to cover costs of shelter construction and rehabilitation, rapid rehousing and longer-term housing opportunities for the homeless.

City of Los Angeles – Proposition HHH Funds

- In 2016, 77 percent of voters in Los Angeles voted to tax themselves an additional $10 per $100,000 valuation to fund a $1.2 billion program to build supportive housing for the chronically homeless, affordable housing for extremely low-income tenants, and provide temporary shelter and services to the destitute.
- Four months later, in March 2017, L.A. County voters approved Measure H, which raised the sales tax by one quarter of a cent, with the revenue earmarked to provide additional funding for services for the homeless.
- Over $300 million of Prop HHH money has now been committed to 33 projects and more in processing.

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Oregon

- Under Measure 102 passed in Oregon last November, general obligation bonds issued by local governments may now be issued for affordable housing projects, with the bond proceeds then loaned or granted to LIHTC Borrowers for specific projects – likely in the form of excess cash-flow or deferred loans, in exchange for long-term affordability covenants. The three county regional government covering the Portland Metropolitan area just completed the issuance of $650 million in voter approved taxable GO bonds and is working in collaboration with local housing authorities and certain cities in the metro region to disburse those bond proceeds to provide gap funding for affordable housing projects.
- The state legislature is expected to reauthorize and increase the appropriation for its Local Innovation and Fast Track ("LIFT") Program in June, a state general obligation bond program, to $130 million for the next 2 years, to continue a program that provides gap funding for affordable housing projects statewide

Colorado

- Just last week the Governor signed legislation doubling Colorado's state tax credit volume from $5 million to $10 million.
- Colorado also implemented vendor fee changes capping the amount of sales taxes that vendors can keep to pay administrative expenses. A portion of the additional sales tax revenue will be invested in affordable housing and is expected to generate roughly $8 million in the next two years, and $45-50 million per year thereafter.
- Colorado is also taking steps to clarify which public land is designated for affordable housing development and limit the possibility that property tax exemptions for such projects will be clawed back, which is intended to provide comfort to developers and lenders and facilitate investment.

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Washington

- In January, Microsoft pledged $500 million to address homelessness and develop affordable housing in the Seattle region. The plan is to loan $225 million at below-market interest rates to promote “workforce housing” for households making between $62,000 and $124,000 per year; to loan $250 million at market rates to build affordable housing for households earning up to 60% of AMI (currently $48,150 for a two-person household); and to donate $25 million to services for low-income and homeless residents.