Affordable Housing Tax Credits

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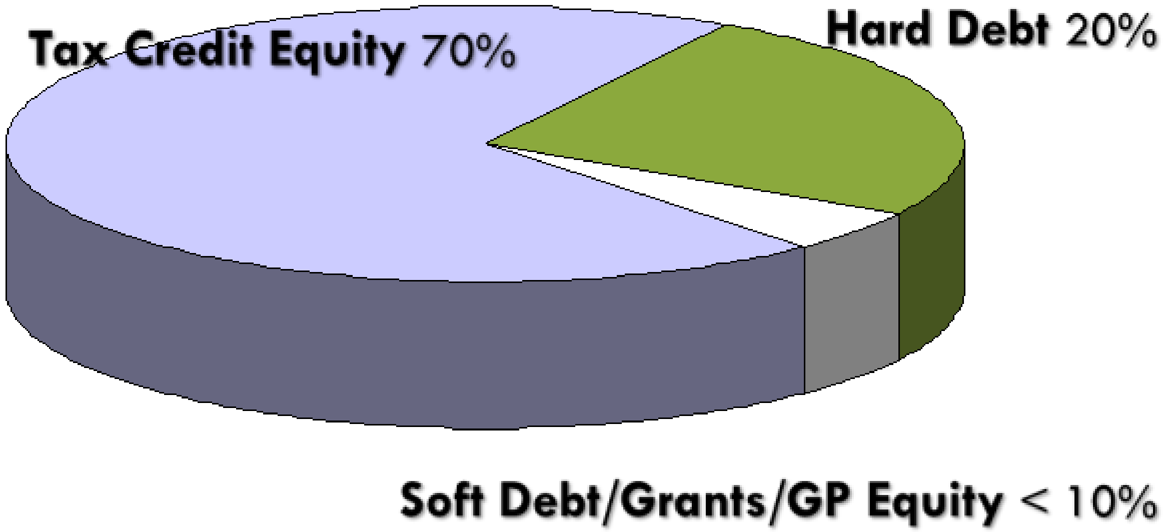
Oklahoma Housing Finance Agency

What are Affordable Housing Tax Credits?

- Congress created Affordable Housing Tax Credits in 1986 to offset the high cost of rental housing construction and rehabilitation, and to provide affordable rent rates for low-income families, those at or below 60% of area median income.
- Oklahoma created State Tax Credits in 2014.
- Tax Credits provide a 10-year reduction in tax liability for developers who construct or rehabilitate affordable rental housing that is income and rent restricted.
- Developers sell Tax Credits to Fortune 500 companies and other investors. The money obtained from the sale is used to lower financing costs. The end result is lower rent for families.
- Oklahoma: 40,272 housing units have been produced or preserved from 1986-2022
- Without tax credits, the rental income generated by an affordable housing complex would be insufficient to cover the costs of developing and maintaining the property.

How Do They Benefit Developments?

- Provide between 65% and 90% of the total development costs for a project.
- Large equity means lower permanent debt which translates to lower rents for residents.
- Require all residents to earn at or below 60% of the Area Median Income (AMI) for the county the project is located in.



What can you do with LIHTC?

- Types of Projects
  - New Construction
  - Adaptive reuse
  - Acquisition Rehab
  - Acquisition Rehab on Historic Buildings
  - Single or Multi Family
- Types of Buildings
  - Apartments
  - Duplexes
  - Single Family Homes
  - Assisted Living

Multi-Family Bonds & 4% Tax Credits

- To access 4% Tax Credits, at least 50% of a development must be financed with tax exempt multifamily bonds.
- 4% Tax Credits differ from 9% Tax Credits in that they are noncompetitive with no maximum.

Sample 9% Tax Credit Calculation

$10,000,000	Total Project Cost
- 1,000,000	Ineligible Project Costs for Credits
$9,000,000	Eligible Basis for Credits
x 9%	Tax Credit Percentage
$810,000	Credits Received/Year
x 10	Number of Years Credits Received
$8,100,000	Credits Received
x .90	Price Paid for Credits
$7,290,000	Equity Into Project

Sample 4% Tax Credit Calculation

$10,000,000	Total Project Cost
- 1,000,000	Ineligible Project Costs for Credits
$9,000,000	Eligible Basis for Credits
x 4%	Tax Credit Percentage
$280,800	Credits Received/Year
x 10	Number of Years Credits Received
$2,808,000	Credits Received
x .90	Price Paid for Credits
$2,527,200	Equity Into Project

State Low Income Housing Tax Credits

- The Oklahoma Affordable Housing Act of 2014 granted OHFA the authority to allocate Oklahoma State Low Income Housing Tax Credits to Qualified Projects.
- Total State LIHTCs allocated in any given year cannot exceed $4,000,000.
- This credit is exactly like the Federal LIHTC – a 10 year credit period.
- Requirements for compliance also mirror the Federal LIHTC.
- No separate application is required.

State Low Income Housing Tax Credits

State Tax Credits will be available for both new construction and acquisition/rehabilitation activities.

- For Funding Period One, $4 million of the State Tax Credits will be available to those Applicants applying for 4% Credits and Bond Financing only.
- Any State Tax Credits Remaining after Funding Period One will be available to 4% and 9% Applications in Funding Period Two, with priority going to 4% Applications.
- The maximum amount of State Tax Credits that will be awarded to any developer is $2 million annually.

Affordable Housing

All rents include utilities

MSA/COUNTY	MEDIAN INCOME		INCOME LIMITS FOR A GIVEN NUMBER OF PERSONS IN THE FAMILY 1	2	3	4	5	6	7	8	MAXIMUM RENTS FOR GIVEN # BEDROOMS EFF	1	2	3	4
OKC, OK HMFA	85,300	60%	34,440	39,360	44,280	49,140	53,100	57,060	60,960	64,920	861	922	1,107	1,278	1,426

Obtaining Tax Credits

- OHFA issues approximately $10 million in Tax Credits each year resulting in nearly $158 million of construction activity statewide.
- Award maximum = $900,000 per development.
- There are two 9% application cycle deadlines and awards:

  Cycle 1: January deadline, awards typically made in May.

  Cycle 2: June deadline, awards typically made in November.
- 4% Tax Credit Applications must be received at least 60 days before OHFA board meeting (meetings are held on the odd months).
- 4% Tax Credit Application applying in conjunction with the State Tax Credit will follow the 9% application cycle deadlines and awards.
- For-profit developers, non-profit organizations, public agencies, units of local government, and tribal governments are eligible to apply for Tax Credits.

Allocation Process

- OHFA awards tax credits based on local need, and population and economic growth trends.
- To obtain Tax Credits in Oklahoma, a development must pass threshold, achieve a higher score than competing developments, and must meet state housing needs.
- OHFA must limit allocations of tax credits to the amount necessary to make each development financially feasible and viable as affordable housing for the required long-term affordability period.
- OHFA
  - Analyzes the application
    - Does it meet IRS and OHFA Rules?
    - Does it meet application requirement?
  - Underwrites
  - Compliance
- OHFA performs three separate rigorous financial evaluations which analyze sources and uses of funds, other government subsidies, reasonableness of costs, and developer and builder profits.

Obtaining Tax Credits - Threshold and Selection Criteria

<u>Threshold</u>

- Market Study
- Capacity and Prior Performance (experience)
- Financial feasibility and viability (underwriting)
- Readiness to Proceed
    - Zoning
    - Site control
    - Preliminary site plans and floor plans

<u>Selection</u>

- Targeting lower incomes
- Development location
- Energy Efficiency
- Amenities
- Development cost efficiency

Compliance

- Administered by the Oklahoma Housing Finance Agency, the Affordable Housing Tax Credit Program is one of the most closely regulated provisions in the tax code. Tax credit apartments or houses must be rented to persons earning no more than 60 percent of the area median income. Restricted rents are enforced for a minimum of 30 years.

- OHFA monitors tax credit developments regularly during the 30-year affordability period for compliance with stringent income, rent and physical condition requirements. OHFA must report noncompliance to the Internal Revenue Service, who can recapture tax credits from noncompliant owners. All developments are monitored a minimum of once every three years by OHFA's compliance staff.

- The private sector discipline imposed on tax credits developments – from initial site selection through years of upkeep and compliance under threat of severe tax penalty – is an unprecedented departure from all previous federal housing programs. This is a key element in the success of the Affordable Housing Tax Credit Program.

Questions? Comments?

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We are happy to help you!