# Low Income Housing Tax Credit (LIHTC) Rental Program Overview

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MFA
Housing New Mexico

# AGENDA


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# LIHTC Program Background

- LIHTC created in the Tax Reform Act of 1986 during the Reagan Administration
- Purpose: to stimulate private investment in affordable rental housing, most of which is now created through this program
- US Treasury provides federal tax credits to state allocating agencies (MFA since 1997) @ $2.30 per capita
- MFA receives about $4.8 million in annual credits to allocate per Qualified Action Plan (QAP) scoring rules

# LIHTC Program Background

- Credits are taken over 10 years, so $1 million annually is worth $10 million in credits

- Investors fund projects and claim credit against tax liability Current NM prices are about 90 – 105 cents on the dollar

- Competitive credits (9%) are the deepest federal subsidy and may fund up to 70% of total development cost (TDC). Non-competitive credits (4%) may fund up to 30%

- Remaining gap is funded with 1st mortgage loans, grants, MFA subordinate loans, deferred developer fee, etc.

# MFA's LIHTC Program

- MFA staff updates the Qualified Action Plan (QAP) annually. It contains application details /scoring criteria (24 for 2016)
- Staff holds a developer forum in July; followed by a 30 day public comment period in September
- MFA's Policy Committee & Allocation Review Committee (ARC) review the QAP & recommend approval the Board
- ARC is composed of five knowledgeable members (the chair is an MFA Board member)

# MFA's LIHTC Program

- QAP is presented to the MFA Board in October for approval
- The QAP is then sent the governor for signature
- Staff holds QAP training in November
- Competitive round applications due February 1st
- Projects are scored, checked for financial feasibility & rank ordered. Highest scoring project are recommend for available credits

# MFA's LIHTC Program

- After committee reviews, award recommendations are made to the Board & approved at its May meeting
- Requests typically exceed credits by 3 to 1
- Projects must be built by 12/31 of 2$^{nd}$ year after allocation
- In 2015 MFA allocated $6.3 million in annual credits to seven projects in Hatch, Santo Domingo Pueblo, Zuni Pueblo, Silver City, Hobbs, Albuquerque & Artesia for 392 low income units (312 new/80 rehab)

# MFA's LIHTC Program

- Total Development Cost (TDC) of the 7 projects receiving 2015 allocation is $73 million
- Prior project allocations: 8 in 2014, 3 in 2013 & 7 in 2012)
- 2015 TDC minus cost of land & reserves =191,211 per unit (down from $196,281 in 2014)
- Is this expensive? In August 2014 MFA commissioned Novogradac (national accounting firm) to compare NM's LIHTC program to five states (AZ, CO, NV, TX & UT)

# Novovgradac Key Conclusions

- Cost of LIHTC development in ***NM compares favorably*** with surrounding states
- As project size increases, cost decreases
- Rural/tribal projects cost more than urban
- Detached unit projects cost more than attached
- No cost correlation with developer type (non-profit/for-profit)

# MFA Actions to Reduce Cost

- The 2014 QAP was revised to add a new scoring category, Efficient Use of Tax Credits" (i.e. points for lower per unit/sq. ft. costs)

- In 2014 staff suggested several changes to the 2015 QAP to continue to incentivize cost reduction

- MFA's Board approved the 2015 QAP in October 2014, and it became effective January 1, 2015

- What were the 2015 QAP changes that may have contributed to declining costs?

# MFA Actions to Reduce Cost

- Eliminate points for projects containing sixty or fewer units
- Eliminate LEED Silver points
- Reduce maximum allowable developer fee
- Eliminate higher cost limit for projects targeting Special Needs (SN) households;
- Reduce points for adaptive reuse of existing building
- Further tighten the Efficient Use of Tax Credits limits

# MFA QAP Changes to 2016 QAP

Pursuant to August 2015 developer, staff proposed, and the Board approved, the following 2016 QAP changes to incentivize further cost reduction (effective January 1, 2016):

1. Eliminate Design Competition  to avoid extra architect cost to compete for points & reduce construction costs up to 10%
2. Revise Design Standards to avoid differences vis-a-vis code and eliminate extra “visitability” requirements
3. Further tighten  the “Efficient Use of Tax Credit” scoring category to the lower dollar amounts per sq. ft. or per unit needed to obtain these extra points

Staff continues to search for new ways to incentivize lower costs