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HISTORIC TAX CREDIT TOOL BOX

Historic Tax Credits and HUD's Rental Assistance Program: Opportunities Found



JOHN M. TESS, PRESIDENT, HERITAGE CONSULTING GROUP

Over the years, twinning the federal Historic Tax Credit (HTC) program with low-income housing tax credits (LIHTCs) has become a common approach to preserving and revitalizing aging public housing complexes.

The Creation of Public Housing

The roots of public housing as a government enterprise dates largely to the Franklin D. Roosevelt administration. Before that, housing the poor was the domain of private enterprise, social reformers and religious or charity organizations. In 1933, President Roosevelt created the Public Works Administration (PWA). This was, in part, responsible for the construction of low-cost public housing and slum clearance.

While the success of the PWA was limited, the agency was responsible for building 22,000 low-income units. Six years later, the Wagner-Steagall Act (also known as the Housing Act of 1937) created the United States Housing Authority (USHA) and established the first permanent federal

commitment to provide a supply of decent, low-rent housing to America's urban poor. The USHA was ultimately responsible for building 120,000 family housing units.

Following World War II, the Housing Act of 1949 created urban renewal and expanded the Federal Housing Administration (FHA), which provided funding for some 800,000 public housing units. The next major surge of public housing construction occurred in President Lyndon Johnson's administration and his "War on Poverty." Among its many initiatives was establishing the Housing and Urban Development (HUD) as a cabinet-level department. By 1968, housing was Johnson's No. 1 domestic priority and led to the Housing Act of 1968. With that act, the government agreed to

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strive for providing 6 million additional low-income housing units that would meet minimum standard within 10 years. In January 1973, President Richard Nixon announced a moratorium on public housing construction and his Administration shifted the focus of public housing from construction to a voucher system.

Rental Assistance Demonstration (RAD) Program

To address the capital improvement needs of the nation's aging public housing, Congress authorized the RAD program in 2012. Administered by HUD, RAD seeks to preserve public housing by providing local public housing authorities (PHAs) with the ability to leverage private capital to finance improvements and invest in the existing housing stock.

RAD provides PHAs a powerful tool to address the \$26 billion repair backlog that exists in the 1.2 million units of public housing inventory. This backlog of deferred maintenance resulted in a decline in the inventory of public housing as, without sufficient funds to rehabilitate, PHAs are forced to dispose of or demolish public housing. RAD allows PHAs to preserve and make improvements to affordable housing units that would otherwise be lost.

Historic Tax Credits (HTC)

The federal government offers a 20 percent investment tax credit for certified rehabilitation of certified historic buildings, otherwise known as a HTC. To secure the HTC, a building must be listed on the National Register of Historic Places and must be rehabilitated in accordance with the Secretary of Interior's Standards for Rehabilitation. The State Historic Preservation Office (SHPO) and the National Park Service (NPS) have design review over the entirety of a project, including exterior, interior and site work. The intent is to assist in the long-term preservation of a historic property through the preservation of historic materials and features.

Public Housing and HTC

There are an estimated 1 million public housing units built between 1933 and the 1970s. With effective ownership structuring, the HTC can be used in the rehabilitation of public housing and combined with LIHTCs. The addition of RAD to the financial toolbox further creates opportunities for revitalizing public housing complexes.

Generally, the development of public housing in the United States is recognized as an important historic event and local resources associated with this event are often viewed as potential historic resources. The NPS completed a multiple property submission in 2004 that addressed public housing constructed between 1933 and 1949, representing more or less the end of the earlier phase of public housing construction. The document facilitated the use of HTC with low-income housing incentives including RAD. Unfortunately, there is no companion contextual document for public housing built since 1949.

It is worth noting that by the second Johnson administration, an average of 35,000 units were built annually. Many of these are iconic high-rise senior housing projects, but also many low-rise complexes. Absent a context statement, the process for nominating more modern public housing projects requires site-specific National Register nominations. Nonetheless, even properties as young as 42 years are being certified because of the historic importance of public housing in local communities.

Generally, too, public housing renovations often lend themselves to rehabilitation that meets the Secretary of Interior's Standards. Public housing was largely designed following federally mandated design guidelines that sought to ensure that properties met minimum construction and design standards, which often encompassed landscape design, building

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materials and room sizes and features. While there are exceptions to the rule, the building stock is generally of superior quality and design has aged well over the years. Historically, PHAs have undertaken capital improvements such as kitchen and bathroom upgrades, but typically did not have the funds available for more substantial renovations. As a result, public housing complexes often retain the appearance and character as originally designed.

Rehabilitation needs today often focus on modernizing aging systems, upgrading facilities to modern codes, capitalizing on new technologies and creating more modern finishes. This scope of work lends itself to meeting the Standards. That said, it is important to understand early in an HTC project which features are considered character-defining. Construction of new facilities on-site may be challenging. Radical change of the facility can be a problem. The furring of perimeter walls or window replacement to meet energy requirements will be closely scrutinized. Reconfiguration of unit interiors to achieve agency minimize square footage requirements also can be difficult. Critical to a projects success is assembly a good project team early and establishing lines of communication among the varying agencies and development partners.

Case Study: Coffelt-Lamoreaux Homes (Phoenix)

Coffelt-Lamoreaux Homes is in Phoenix, 3 miles west of downtown. Built in 1954, the complex consists of 302 duplex units in 151 ranch-style buildings on 38 acres. Designed by Lescher & Mahoney, the buildings were constructed to be compact and efficient. Each building consisted of two similar units, with unit types distributed throughout without concentration.

Lined in rows along a single sidewalk away from the street, each unit had a defined front and rear yard with porch and patio. Included in the project were a 1.5-acre playground and a community building. Residents

including couples, families, widows, seniors and service members.

The development was particularly notable for breaking political and social barriers. Politically, Coffelt was a turning point. The Housing Authority of Maricopa County (HAMC) was established in 1943 to function as a property manager. This was the agency's first construction project. This decision sparked a controversy within the community and HAMC's board on whether it was the role of government to build public housing. The project was also a turning point socially. Unlike the previous public housing in Phoenix, Coffelt was racially integrated.

The complex's size and location made it a keystone in the social fabric of southwest Phoenix, but by the early 2000s, it was showing its half-century age. Some repairs were completed in the 1980s, but the repairs were only just enough. The structures and systems had outlived their functional lives. With maintenance funds limited, the complex faced a gradual, but accelerating, cycle of a debilitating quality of life. The complex was slated for demolition in 2012.

This was reversed with the creation of the RAD program. With RAD, private affordable housing developer Gorman & Co. was able to partner with HAMC on a comprehensive \$47 million renovation project. Work included the complete repair of each building's envelope and full upgrades with modern energy-efficient HVAC, water systems and electrical systems. Kitchens and baths were modernized. A small accessory addition was added to the rear. Finally, front and rear patios were complemented with site and landscaping improvements, including modernization of the park.

Integral to upgrading the complex was preserving its heritage and sense of place. In completing designs and scope, Gorman worked closely with the Arizona

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State Historic Preservation Office to ensure that the project met the Secretary of Interior's Standards. This cooperation led to the project being able to secure the HTC.

Like most historic rehabilitation projects, the development was a challenge in balancing the goals of Secretary's Standards with those of the Arizona Department of Housing (ADOH). There were two specific challenges. First was ADOH's minimum-square-footage requirements. Built as affordable housing, the units were designed to be small and compact. They did not meet the current requirements. To find the balance, Gorman worked with Arizona SHPO to design a small addition on the rear of the building. The added size allowed ADOH goals to be met.

Thoughtfulness in location and subtleties in the design allowed the additions to meet the Secretary's Standards. The second challenge was energy standards. All the units had 1954 steel, double-hung, single-pane windows. To achieve energy efficiencies, Gorman proposed replacing the windows; it worked with Graham Architectural Products to create a custom design that met SHPO and NPS design standards while reaching the energy goals.

The project's grand opening is scheduled for April. ❖

John M. Tess is president and founder of Heritage Consulting Group, a national firm that assists property owners seeking local, state and federal historic tax incentives for the rehabilitation of historic properties. Since 1982 Heritage Consulting Group has represented historic projects totaling more than \$3 billion in rehabilitation construction. He can be reached at 503-228-0272 or jmtess@heritage-consulting.com.

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