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## HISTORIC TAX CREDIT TOOL BOX

# Three Considerations When Twinning HTC, LIHTC

JOHN TESS, HERITAGE CONSULTING GROUP



Rehabilitation developments often use both the federal historic rehabilitation tax credit (HTC) and the low-income housing tax credit (LIHTC) to meet the bottom line while still providing quality affordable units.

Because both the HTC and LIHTC are federal credits, this relationship seems like an easy pairing—historic buildings are often adapted for housing and located in areas where the demand for affordable housing is strong. Looking at it from the other side, public housing stock has a long tradition of being considered culturally notable resources. In reality, the programs are completely unrelated with separate rules, requirements and reviewing agencies. Having a knowledgeable team that acts proactively to address challenges inherent in “twinning” the tax credits can result in the two programs working together successfully.

“Twinning” is often used to describe affordable housing developments that seek to capture both credits. To capture both the HTC and LIHTC tax credits, it is important to have a solid project team that is collectively knowledgeable about the entire process for both credits at both the federal and state

level. In addition to separate reviewing agencies and mismatched timelines, the two programs have specific design requirements that at times may be incongruous. Twinning requires a balancing act between meeting IRS requirements for the credits while adhering to the Secretary of the Interior’s Standards (Standards) for historic preservation, as well as state requirements.

To understand the complexities of combining the two programs, it is important to understand the basics of each. The HTC provides a 20 percent federal tax credit based on qualified rehabilitation expenditures. This credit is “by-right,” meaning that if a project meets the program’s requirements, it receives the credits, and there is no competitive application process at the federal or state level. Eligibility for the HTC requires a building to be a certified historic structure. This means a property is either individually listed in the National Register

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of Historic Places or a contributing resource to a National Register or certified local historic district. The rehabilitation must also be certified. This means that it must meet the Standards for as interpreted by the state historic preservation office (SHPO) and National Park Service (NPS).

The LIHTC is administered through designated state and local agencies with allocations from the IRS. Congress has authorized annual 9 percent LIHTC funding for each state based on the greater of \$2.70 multiplied by the state population or \$3,105,000. Each housing agency then establishes award criteria, regulations

and processes. Often award criteria target the preservation of existing units or the development

of new units for specific median family income levels and/or underserved populations.

There is also a 4 percent LIHTC. This program is similar to the HTC in that it is automatic if the program requirements are met. Under the 4 percent LIHTC, the federal credit generally provides investor equity of about 30 percent of the low-income unit cost in a development. The 9 percent credit generally provides investor equity 70 percent of the low-income unit cost in a project.

The legislative underpinning of both programs sets out specific legal and accounting frameworks for using the credits. Each program also has very specific application requirements, review process and submittal thresholds both defined by the IRS and the specific funding agency.

*Image: Courtesy of HELP PA VLP  
Rehabilitation of the historic  
Spring Garden School in  
Philadelphia into affordable  
housing required equity from  
historic tax credits and low-  
income housing tax credits.*

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On their own, both programs are complicated. When combined, the process becomes even more complicated.

Yet, twinning the credits has its advantages. The most obvious benefit is the additional funding. Adding to the mix, some states also have state LIHTC and state HTC that might parallel the federal program. Additionally, many tax credit investors participate in both programs, which can streamline the syndication process. All things considered, twinning the credits can be a positive venture that does add to consulting, legal and accounting fees but brings significant additional capital to a project.

### Challenges of Combining the LIHTC and HTC

Three important items to consider when using HTCs and LIHTCs are timing, cost and design.

1. Timing is critical, particularly if the applicant seeks to capture the competitive 9 percent LIHTC credit. There is the uncertainty of knowing whether the credits were awarded and if not, reapplying for later rounds. This takes considerable time in absolute terms.

Timing issues can be difficult on the entire project team and it's important that everyone understands the application process. Once the development has been awarded LIHTCs, the clock begins ticking and the project must be completed by the date indicated by the awarding agency. For LIHTC, developments must generally be placed in service within two years from the close of the calendar year of the allocation from the state agency.

For HTCs, 60-day to 90-day review times are typical, provided there are no significant design issues. Waiting for the LIHTC awards announcement before submitting the HTC application creates timing pressures. Submitting an HTC application and receiving approval before applying for the

LIHTC can be advantageous in states that provide points for historic preservation.

2. Cost is often a determining factor in awarding the 9 percent LIHTCs and higher costs make approval less likely. Twinning, specifically layering the HTC program over the 9 percent LIHTC, may result in higher construction costs.

As discussed, an HTC project must meet the Standards. Some treatments, which might be acceptable under LIHTC, would not be acceptable under the HTC. One such example would be window replacement. In most instances, a LIHTC allocating agency will accept window replacement without issue and may approve vinyl product as a replacement. Yet, vinyl window replacement is rarely acceptable for purposes of the HTC. Hence, when twinning, window replacement is a much more expensive process requiring the use of a more expensive product.

3. Perhaps the most critical consideration when twinning the two programs is design requirements. As with timing and cost, the key is being proactive, anticipating conflicts and working to chart solutions early in the process.

It is important to remember that the programs have different and sometimes incongruent design goals. One program focuses on housing and tenant needs, the other is meant to protect an historic resource. LIHTC requirements for lead paint, energy efficiency, unit layouts and unit size must be met. These requirements however can conflict with the Standards. Generally, it is possible to meet both sets of requirements to provide safe and affordable units that maintain historic integrity. A project team with experience in both programs can help enact creative solutions to the affordable-historic design challenge.

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**Case Study: Lural Lee Belvins Veterans Center and Help Philadelphia V in Philadelphia**

One such development that overcame the challenges of design is HELP USA’s recently completed rehabilitation of the Lural Lee Belvins Veterans Center and Help Philadelphia V.

In 1928, the building was constructed as the Spring Garden School No. 1 during the school’s prolific Progressive Era development phase. The school closed its doors in the 1970s and remained vacant for several decades, experiencing significant deterioration. Until its recent rehabilitation, the Spring Garden School was a target for graffiti tagging and vandalism and was a nuisance to the surrounding neighborhood. HELP USA transformed the Spring Garden School’s classrooms into affordable housing units with preference for veterans. The former eyesore is restored to its prominent standing within the community.

Design challenges arose during the project on the interior and exterior of the building, mostly related to energy requirements. In order to meet HUD’s energy requirements, the perimeter walls needed to be insulated. To accomplish this, the furring could not exceed 3 inches, as is the NPS’ general requirement. In addition, the existing woodwork was in poor condition due to graffiti and water damage. Originally, the project team proposed painting the woodwork, but the NPS felt this was an incompatible treatment as the woodwork had originally been stained, not painted. Repairing and refinishing the woodwork was not a feasible option due to the graffiti. Additional information was submitted to the NPS to reinforce the argument for painting the woodwork. Ultimately, the NPS approved painting the millwork.

The biggest design challenge on the project centered on windows and had implications for the HVAC system. The existing wood windows were in extremely poor condition needed replacement. Originally, in order to meet HUD’s energy efficiency requirements, a triple-pane window which matched the historic window configuration was proposed. However, the NPS ultimately felt that extra layers of glazing dramatically altered the appearance of the windows by creating a darker glazing.

As a solution, the project team, familiar with various window manufacturers, found an energy-efficient, double-paned window that adhered to the NPS guidance. Because the triple-pane windows could not be used, two separate HVAC systems were in put in place—one for the top floor and one for the balance of the building to increase energy efficiency. Fortunately, the development team overcame these design challenges and structured a successful HTC and LIHTC project.

**Conclusion**

While twinning the LIHTC and HTC is certainly complicated, it is possible to use both credits to fund an affordable residential rehabilitation property. As seen with Spring Garden School, changes to the design may be necessary. Having an experienced and nimble project team can help overcome the challenges of twinning the credits. ❖

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*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](mailto:jmtess@heritage-consulting.com).*

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