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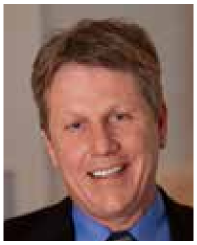
HISTORIC TAX CREDIT TOOL BOX

LIHTC, HTC and Public Housing



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For public housing redevelopments, there can be benefits to pairing historic tax credits (HTC) with low-income housing tax credits (LIHTCs) and other funding sources.

The dollar benefit can be further increased by state HTCs, which often run seamlessly with the federal HTC.

The second benefit is indirect but significant. Section 106 of the National Historic Preservation Act requires that recipients of federal funding consult with the state historic preservation office (SHPO) when the property is older than 45 years old. Since the HTC requires projects meet the Secretary of Interior's Standards, an HTC development typically has a more streamlined consultation. A HTC project can also benefit from regulatory and code variances. Many agencies offer building code relief for historic properties. In addition, there may be unexpected issues, such as flood plain regulations, where historic designations can help.

A challenge for HTCs in public housing developments is having the building determined to be historic. Housing projects are traditionally well built and designed, but not in a way that seems historically important. But the National Park Service (NPS) recognizes their value as cultural resources. For public housing properties that were built before 1949, NPS facilitated the designation process by producing a thematic study "Public Housing in the United States, 1933-1945." This study provides a firm context for establishing public housing historic bone fides. The U.S. Department of Housing and Urban Development (HUD) is working on a sequel thematic study for the postwar years; in the interim, individual modern public housing properties have begun to be individually listed.

In most circumstances, using tax credits in the renovation of public housing is a complicated endeavor involving a number of players, each viewing the development from a different perspective. Anyone contemplating a LIHTC/HTC for public housing property should be aware of how each player has their own set of priorities, responsibilities and filters. Three primary players are the property owner, public housing developer and equity partner.

continued on page 2

continued from page 1

Public Housing Authority

Public housing authorities (PHAs) are public entities led by a volunteer board of directors who oversee the agency, manage the staff and hold fiduciary responsibility for the agency's activities. Examples can be found in nearly every community, large and small. One example is the Taft Housing Authority in Taft, Texas, where there are two housing developments. The buildings are duplexes with family-sized units, complemented by community space. Donnie Sue Riojas has managed the Taft Housing Authority for 30 years. As she describes them, the buildings were solidly constructed, offering a good quality of life for its residents. Over the years, the PHA worked hard to address cyclical maintenance, but funding was never sufficient to cover the capital needs, let alone improving aging interiors. As she looked toward retirement, Riojas convinced her board that it was time to act. She was aware there was the potential to engage with a low-income housing developer who could help find new money sources and help manage that process. The authority issued a request for proposal, publicizing through the newspapers and their own professional network. The Taft Housing Authority worked with Santos McBain Management & Planning, a consultant for HUD's Rental Assistance Demonstration (RAD) program, and eventually connected with Housing Solutions Alliance (HSA), which advertises itself as "the one-stop shop for all of your needs," offering comprehensive design and development services.

HSA encouraged Taft to explore the HTCs. Riojas had not considered the Taft buildings as "historic" but as she pursued the possibility, she realized that the same positive qualifies she saw in the complexes supported the notion that could be historic. Eventually, Taft Housing was able to secure both federal and state HTCs for the redevelopment; while the federal HTC is valued at 20 percent of the qualified rehabilitation costs, the Texas state credit is valued at 25 percent.

There is always a question of how an agency hopes to get the job done. Project management takes many forms. In some instances, the housing authority takes on the day-to-day management. In others, the developer executes the plan. And still other executions are a hybrid. Each path has its own costs and operational implications. In Taft, HSA provides project administration and construction management. Art Schuldt, president of has, is a firm proponent of HTCs. Taft is one of eight recent public housing redevelopment initiatives in which HDA has leveraged HTC for its clients. "The credits provide the means for a small or large PHA to gain a solid financial footing for the future," he said.

A key ingredient to a successful redevelopment is having the board and staffs firmly coalesce around the need, timing, strategy, budget, scope of work and plan of execution–getting everyone on the same page. This process of coalescing can take several years and sometimes benefit from the involvement of an organizational facilitator.

Affordable Housing Developer

While it is possible for a PHA to put a deal together linking HTCs with LIHTCs, it is more common for PHAs to partner with an experienced affordable housing developer. James Threatt is one such developer. He and affordable housing industry veteran Michael Bowen head up The Transformation Group LLC (TTG), a national affordable housing consultancy based in Kansas City with offices in Dallas and Washington, D.C., focused on advising PHAs on the preservation of public housing using HUD's mixed-finance and RAD programs.

When working with PHAs, Bowen and Threatt both agree that the resource of choice is the 9 percent LIHTC. Demand, however, generally exceeds allocable supply by 3-to-1. This means that deserving developments come up short year after year. In response, rather than playing the 9 percent lottery, TTG instead advises

continued on page 3

continued from page 2

PHAs to pursue redevelopment by using 4 percent LIHTCs, which are awarded on a noncompetitive basis, in conjunction with myriad other funding sources, including federal HTCs and, in some instances, state HTCs. Using this approach, TTG is able to effectively replicate the capital structure of a 9 percent LIHTC deal with far less uncertainty and wait time. Because successful nomination to the National Register is essential to the efficacy of the structure, Bowen and Threatt go on to emphasize the importance of engaging a HTC consultant skilled in applying the National Register criteria for evaluation to public housing–it does not work without the HTCs.

Working on RAD projects with Bennett O. Washington of the Housing Authority of Vicksburg, Miss. and Mary James-Mork of the Community Development Authority of Marshfield, Wis. (CDA Marshfield), Bowen and Threatt discovered that the term "historic structure" is not limited to grand architectural buildings. For the Vicksburg development, which involved the rehabilitation of 430 units of public housing across six scattered sites with a total development cost of $50 million, the nomination focused on the significance of the housing complex as emblematic of local government's interpretation of the various planning and design standards promulgated for public housing programs governed by the 1949 Housing Act. Similarly, for the CDA Marshfield RAD development, a 200-unit substantial rehabilitation project with cost of $40 million, the nomination focused, not on grand design, but on the particular and important role, the housing complex played in local community development and economic growth.

Using 4 percent LIHTCs, federal HTCs and state HTCs, PHAs can when working with an experienced development team accelerate the development timeline and significantly increase the amount of investor equity, which allows for a more substantive scope of work in support of long-term preservation.

Equity Investor

A third perspective comes from the equity investor. US Bank is nationally prominent in funding LIHTC and HTC properties, as well those funded with new markets tax credits and renewal energy tax credits. Vihar Sheth is senior vice president and director of business development for U.S. Bancorp Community Development Corporation's Affordable Housing Tax Credit Investments and specializes in LIHTC financing. From his vantage point, LIHTC transactions are already complicated–involving a multimillion construction development with the always-present potential for schedule delays and cost overruns. Adding HTCs adds complication. Sheth believes it is worth the risk in some cases–with the right team and the right property.

Construction on a LIHTC-only project is somewhat straightforward in terms of timetable, budget and outcomes. Layering HTCs can potentially negatively affect each of these elements. HTC design reviews can disrupt the schedule and addressing specific HTC design requirements may result in more rigid project design. Because of this, historic rehabilitations can have less predictable outcomes and higher costs.

For Sheth, the key question is how many affordable housing units can be produced and at what quality? If layering HTC over a LIHTC development results in fewer units, it is not a good outcome. If layering HTC over a LIHTC property results in lower livability or higher operating costs, those are also not good outcomes. On the other hand, if a combined LIHTC/HTC development improves the pro forma, and results in more and higher quality units, then the complexity may be worthwhile.

Sheth pays particularly close attention to the development team when considering a LIHTC/HTC transaction. Has the team worked together? Does it have a record of success with developments of comparable scale? Is the developer versed in LIHTC and HTCs? Is

continued on page 4

continued from page 3

there a skilled HTC consultant? Even when there is a solid team, on a LIHTC/HTC development, U.S. Bank requires a higher level of scrutiny in the construction process, paying close attention to the schedule, team and budget. Sheth said that while a LIHTC/HTC project is a more complicated and riskier proposition, it can be worth it for the right property done with the right team.

Conclusion

There is enormous potential to link LIHTCs, federal and state HTCs and RAD in public housing rehabilitations. Increasingly, NPS is accepting these properties as worthy of being listed on the National Register. But there is no inherent benefit to combining any and all sources of revenues in a rehabilitation project. Adding sources complicates the development and does not always result a better cost per unit or a more livable unit.

But properly executed, the added sources can result in a superior outcome. The key is to move strategically and patiently. It is critical for the PHA and board to have a unified vision and plan moving forward. It is vital for the development team to be specifically skilled in each tax credit program. In finding an equity partner, it is important anticipate their hesitation and to clearly articulate the logic and strength of the development plan, team and outcomes. ❖

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