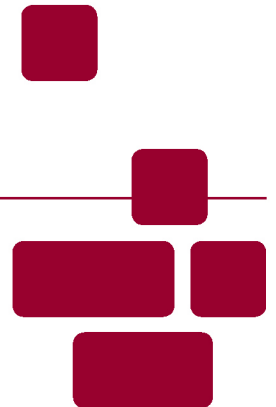


Breaking down LIHTC

Leveraging the Tax Credit for Your Community

February 17, 2021
Housing Action Illinois



Our 60 minutes

- Brief history of LIHTC
- Today's LIHTC stage – actors and scenes
- 50 Shades of affordable housing communities
- Choosing your organization's role
- Good help... isn't that hard to find

Goal:

You will zoom away feeling empowered– as you'll know what the low-income housing tax credit is, what it offers, and how it can help your community and its residents.

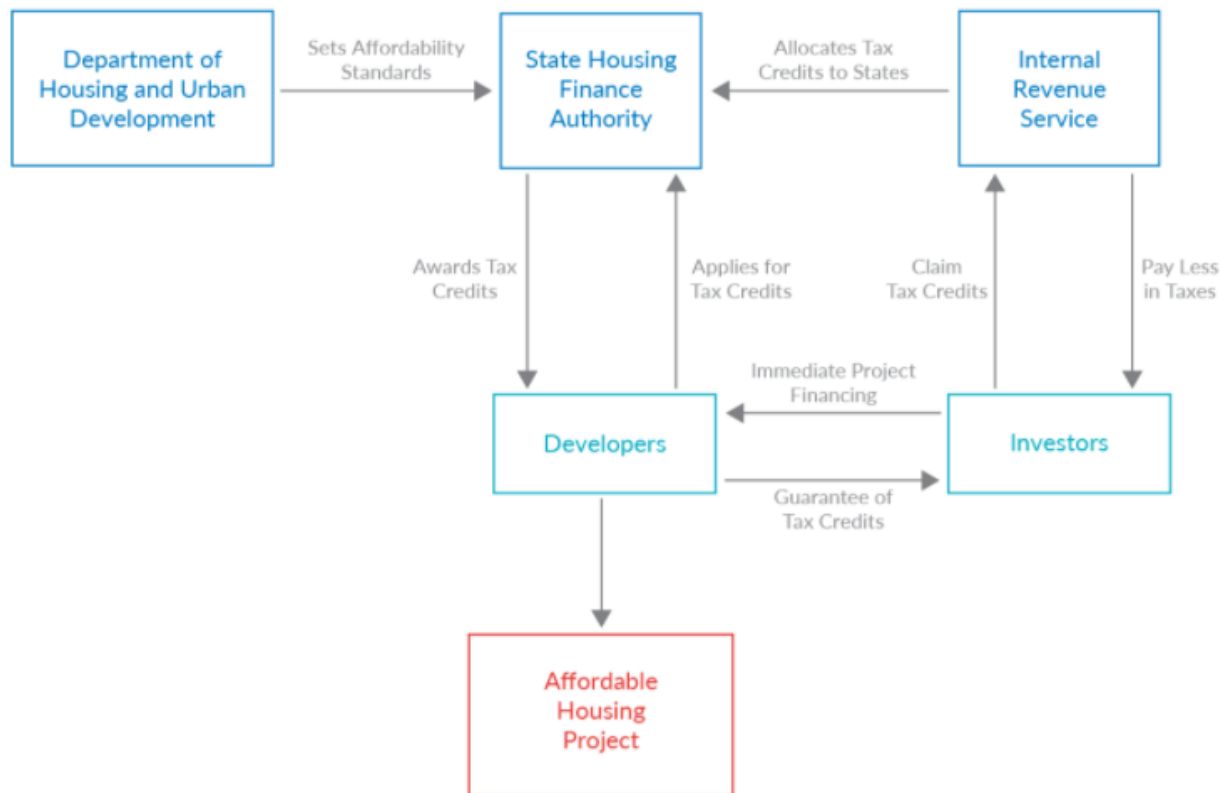
The year was 1986...

- Perceived decline and failure of public housing
 - See: Pruitt-Igoe demolition (1954-1976)
- Push for empowered local and ‘small government’
 - See: Reagan’s 1st inaugural, “...government is not the solution to our problems; government is the problem.”
- Desire to incentivize affordable housing provided by private developers and investors
 - States receive allocation of 9% credits; 4% credits are triggered by a private activity bond issuance (also allocated by the federal gov’t)
 - Housing Finance Agencies (“HFAs”) have a competitive process for 9% credits, set in their “qualifying allocation plan” (“QAP”)
 - The housing credit is valuable to investors given the \$1 for \$1 reduction in federal tax liability plus other tax incentives (depreciation, losses)

The world's a stage...

Low-Income Housing Tax Credit Involves Multiple Public and Private Actors

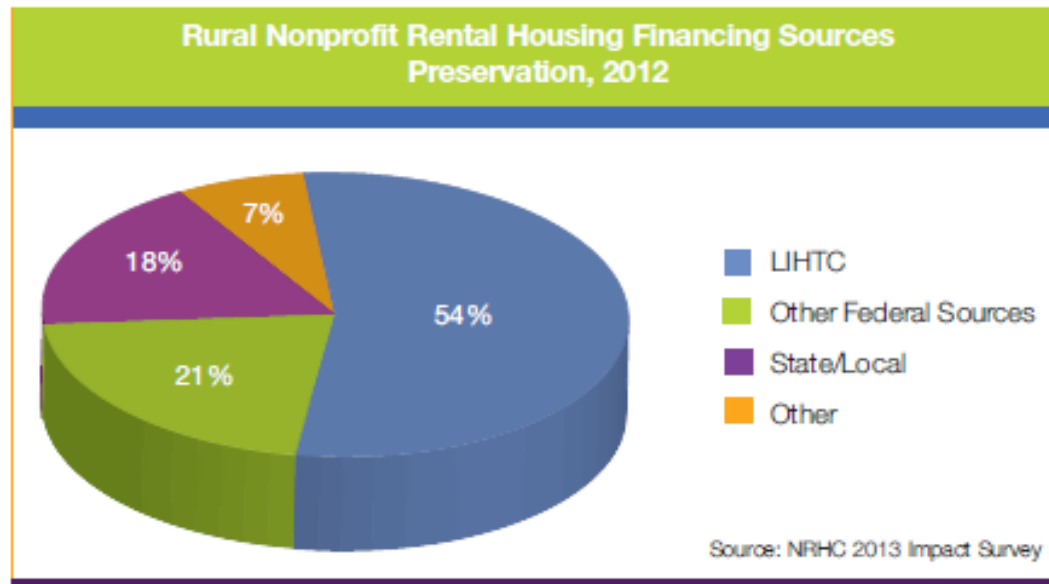
Structure of Low-Income Housing Tax Credit



Source: Author's design (2020).

50 shades of affordable housing communities

- The program is intentionally driven by local decision makers (HFAs) to ensure appropriate fit in the town/city/state needs
- Name your community's need – in 35 years, it's likely a similar affordable housing development exists somewhere in America



Nursing-Home Care: Stephenson County, Il.



Illinois Development an Alternative to Nursing-Home Care

Heritage Woods of Freeport, located in rural Stephenson County, Ill., was designed to provide seniors in the area with an affordable alternative to nursing-home care.



Okpara Homes: Peoria, IL

Okpara Sells first Homes

The Peoria Affordable Housing Initiative has begun to sell homes through Okpara LP, which owns the homes. Eight of the 80 homes built in the first phase of the housing initiative have sold to residents who have been paying rent for several years. The rent they paid was put towards the purchase of the homes, allowing residents to go from an average of \$580 a month in rent, to a \$250 monthly payment that includes principal, interest, taxes and insurance.

The homes in the initiative were built 15 years ago on Peoria's south side. They are two story homes, three bedrooms with full basements and two car garages.

By **Steve Tarter**
of the **Journal Star**

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Posted May 4, 2016 at 9:01 PM



PEORIA — A housing program that deals with one of South Peoria's biggest needs — to increase the number of homeowners in the area — took a step forward last week.

Four Peoria families that had been renting homes became homeowners, said McFarland Bragg, executive director of Peoria Citizens Committee for Economic Opportunity, 711 W. McBean St.

They joined four families that became homeowners in January through the PCCEO's Okpara program.



Countryside Apartments: Geneseo, Il.



Choosing your role

- 1. What does your community need?
- 2. What are your organization's skills?
 - Community organizing
 - Fundraising
 - Active development / property management
- 3. What's the missing ingredient?
- 4. What do YOU want?
 - Assist with community support
 - Active envisioning, development, ownership
 - ...in between?

Partnership / Joint-Venture Opportunities

- In exchange for beneficial non-profit status in the ownership, the non-profit can benefit from:
 - Envisioning its community's affordable housing production/preservation
 - Portion of developer fee
 - Portion of cash flow (typically limited)
 - Potential ownership opportunity after 15-year tax credit period
 - Advanced learning opportunities through all of the above
- However, the organization is typically not the day-to-day manager of operations nor do they make decisions during the 15-year period. Typically,
 - Cannot 'demand' to hire or fire a third party (contractor, property mgr, etc.)
 - Does not select site, dictate design, or unit mix
 - Structure financing or select partners

Developer & Ownership Opportunities

- Benefits include ‘driving the bus’ toward development, including:
 - All pre-development activities, such as financing applications, zoning approvals, and community support
 - Development activities, such as selecting financing partners, negotiating legal documents, closing on financing
 - Receipt of developer fee – at closing and various benchmarks
 - Construction activities, such as managing the general contractor, overseeing progress and draws, etc.
 - Ownership activities, such as oversight of property manager, reviewing annual audits, etc.
 - Receipt of deferred developer fee and cash flow
- To be the driver, you must know your passengers and route... and your bus’ capacity!

Good help... isn't *that* hard to find

- Know your community, know your team, know your limits, know your outcome.
 - Everything else will flow
- Most common mistake is developers, of all backgrounds, believing their existing commercial real estate, community organizing, or etc. experience is “enough” to navigate them through a complex IRS based housing production and preservation process
 - ...remember all the actors it takes for one development?
 - ...each deal is a learning experience – borrow someone’s else knowledge
- Small industry – references are the most powerful tool, ask multiple people for their “top three” for intros