Legislative Study on Workforce Housing

Housing Tax Credit Program

SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY

Building A Better Quality of Life

Legislative Study on Workforce Housing

- Low Income Housing Tax Credit (HTC) Program
  - Created under the Internal Revenue Code of 1986
  - Replacement of previous federal tax incentives for investing in low income rental housing
  - Without incentives affordable housing does not generate sufficient profit for investors
  - Investors (typically large corporations) purchase HTCs for dollar for dollar reduction of their federal tax liability
  - Equity (purchase of the credits) subsidizes the housing allowing the rents to be below market and affordable for targeted households

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- Low Income Housing Tax Credit (HTC) Program
  - Eligible developments are new construction, acquisition and/or rehabilitation of rental housing
  - HTC only available for depreciable costs such as hard construction costs, construction loan interest, architectural fees, etc. (land and reserve accounts are not eligible)
  - $2.7 Million annual allocation
  - Since 1987
    - Allocated tax credits for 323 developments
    - Total development costs $758,838,366
    - Total housing units – 9,427

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- Low Income Housing Tax Credit (HTC) Program
  - Occupancy restrictions for tenants of 60% or less of HUD's Area Median Income (annually calculated)

    (40% at 60% AMI or 20% at 50% AMI)
  - Rent Restrictions – gross rents (including utilities) cannot exceed 30% of the established median income (50% or 60% AMI)
  - HTC financing only eligible for the rental units that are set-aside as affordable units

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Example Project

30 - unit development consisting of 1 BR, 2 BR and 3BR units

Land	$ 160,000*
Site Work	$ 300,000
Building	$ 2,400,000
Professional Fees	$ 120,000
Construction Interim Fees	$ 115,000
Softs Costs	$ 15,000
Developer & Consultant Fee	$ 300,000
Reserve Accounts & Fees	$ 90,000*
Total Project Costs	$ 3,500,000

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Calculation of Housing Tax Credits

$3,500,000	Total Project Costs
($ 250,000)	Less Ineligible Costs
$3,250,000	Eligible Basis
x 100%	% of Restricted Rental Units
$3,250,000	Qualified Basis
x 9.00%	Applicable Federal Tax Credit Rate
$ 292,500	Calculated Housing Tax Credits

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Calculation of Housing Tax Credits

$ 292,500	Calculated Housing Tax Credits
x 10	10 Year benefit
$2,925,000	Total Housing Tax Credits
x $ .90	Purchase price of the credits / pay today for future benefit of the tax credit over the next 10 to 11 years
$2,632,500	Equity proceeds for payment of development costs
$ 867,500	Mortgage financing (TPC $3,500,000 - $2,632,500)

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What rents can be charged?

- Applicant has to determine the market rent / study indicates rents no higher than $675 for 1BR, $817 for 2BR and $936 for 3BR
- Allowable program rents / SDHDA requires 20% of the units at Fair Market Rent (FMR)
- Local Public Housing Authority / units eligible for use of Section 8 vouchers?
- Utility allowance of $75 for 1BR, $87 for 2BR and $101 for 3BR (different for each project)

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Pennington County (2017) Rents and Incomes

	50% AMI	60% AMI	FMR*
1BR	$606	$ 728	$ 619
2BR	$728	$ 874	$ 823
3BR	$841	$1,009	$1,149

- Maximum rent includes all utilities

	50% AMI	60% AMI
1 Person	$22,650	$27,180
2 Person	$25,900	$31,080
3 Person	$29,150	$34,980
4 Person	$32,350	$38,820

South Dakota Housing Development Authority

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Affordable Housing Developments

- Often difficult to complete
- More financing sources utilized, more restrictions and reporting requirements
- Restrictions on rents and incomes exist for 30 to 40 years
- Rents based on HUD determined income levels
- Annual rent increases not always possible
- Limited cash flow to withstand unexpected increases in operating expenses

South Dakota Housing Development Authority

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South Dakota Housing Development Authority

- Designated the state allocating agency
- Board of Commissioners approve/deny applications
- SDHDA staff administers the program:
  - Creates allocation plan outlining program requirements (approved by the Governor)
  - Reviews project applications and completes project underwriting for financial feasibility
  - Inspects and monitors construction/rehab
  - Reviews physical structure and program compliance to ensure long-term compliance and feasibility (30 to 40 years)

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