

Funding Affordable Housing Development: An Introduction



November 2024

Regional Housing Legal Services

RHLS is a nonprofit law firm with unique expertise in affordable, sustainable housing and its related components — community and economic development, utility matters, and preservation of home ownership. RHLS provides innovative project and policy solutions that help create sustainable communities offering decent, safe, and affordable housing for lower-income Pennsylvanians.

Webinar Overview

- ❖ For people who are new to housing development or have limited experience who want to know more about how to fund the creation of affordable homes.
- ❖ Just an overview; each program has detailed guidelines.
- ❖ Focusing on resources for housing development; not covering programs for tenants, homebuyers, or homeowners.
- ❖ Covering the major and most commonly used programs.
- ❖ Not including COVID funding (CARES Act, ARPA)
- ❖ If you have a development in mind and want more information, get in touch with us and we will connect you with one of our attorneys.

Disclaimer

The information included in this presentation is not legal advice. Regional Housing Legal Services has verified that the information about each program is accurate as of early November 2024, but it is subject to change. Please visit the websites of the administering agencies to get the most up to date information about program requirements and contact them directly with specific questions.

Low Income Housing Tax Credit (LIHTC)

26 U. S. C. §42

26 C. F. R. §1.42

- Tax Reform Act of 1986 created incentive for private individuals and entities to invest in affordable housing: Low Income Housing Tax Credit (LIHTC)
- Very complicated IRS rules; requires expertise

LIHTC: What's It For?

- Encourage development of affordable rentals by private sector
 - ❖ Tax credit to investors taken over 10 years
- Properties remain affordable for 40 years (in PA)
 - ❖ “Affordable” – targeted to households with incomes between 20% and 80% of area median income (AMI); often units are for 50% - 60% AMI

LIHTC: Who Administers It?

- IRS in coordination with HUD
- PA Housing Finance Agency (PHFA)

LIHTC: Who Can Use It?

- For profit and non-profit developers
 - ❖ Nonprofit set-aside: 25% of credits (in PA)
 - Within set-aside, PHFA preference of up to 5% for CHDOs
 - Non-profit must “materially participate” in the tax credit development during first 15 years
 - Nonprofit may partner with for-profit developers, but must have a management role in the partnership
 - Nonprofit may not be an affiliate of nor controlled by a for-profit entity

LIHTC: How Does It Work?

- Complexity adds to costs; requires larger number of units to cover costs
 - ❖ 24 units or more

LIHTC: How Does It Work?

- Must specify which units are for low-income households and at what AMI; can vary
 - ❖ Pre-2018, IRS targeted households at 50% or 60% AMI
 - PHFA added 20% AMI targeting of some units
 - ❖ New developments can range from 20% AMI to 80% AMI as long as the average is 60% AMI or less
- Developer applies to PHFA; if awarded tax credits, equity investor becomes a partner and provides cash for the project

LIHTC: How Does It Work?

➤ LIHTC rents

- ❖ NOT set according to the tenant's income
- ❖ Set to be affordable by a household at the designated AMI
- ❖ Tenant must have income or voucher to qualify
- ❖ See [“Renting a LIHTC* home: Everything you need to know”](#)

LIHTC: How Much Money Is There?

- States receive allocation of LIHTC at \$2.90 per capita (2024; adjusted annually for inflation)
- Additional credits from national pool, returned credits
- States may “forward allocate”
- PHFA made \$55.5 M of LIHTC awards in 2024
 - ❖ PHFA received applications totaling \$111.7 M
 - ❖ Awarded 41 out of 80 applications

LIHTC: Citizen Participation

- Qualified Allocation Plan (QAP) sets rules for applications, including preferences
 - ❖ Draft QAP published for comment
 - ❖ <https://www.phfa.org/mhp/> Click a year then “Draft 20__ Qualified Allocation Plan”

For More Information

- RHLS presentation:
<https://www.rhls.org/pafundingreport/>
- National Low Income Housing Coalition
(www.nlihc.org)
 - ❖ [Advocates' Guide](#)
 - ❖ [Budget information](#)

For More Information

Regional Housing Legal Services

www.rhls.org

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