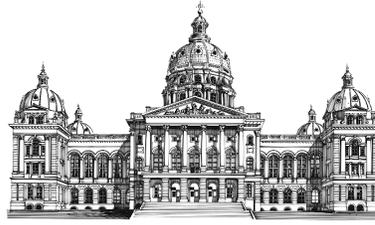

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Iowa Finance Authority Low-Income Housing Tax Credits

ISSUE

The Iowa Finance Authority annually accepts applications from developers proposing construction of multi-family low-income housing projects in Iowa. Each year, applications exceed available funding. The 1999 round of federal low-income tax credit awards were controversial, with the original awards withdrawn. A new list of projects was approved in November.

AFFECTED AGENCIES

Iowa Finance Authority

CODE AUTHORITY

Section 16.1(40), Code of Iowa
Section 16.52, Code of Iowa

BACKGROUND

The federal government allows each state to annually distribute federal tax credits for multi-family, low-income housing construction. Each year, Iowa is allowed to award tax credits to developers equal to \$1.25 per Iowa resident, or approximately \$3.6 million. The amount may vary each year, depending on carry-over credits that were not awarded or used in the previous year. The tax credits are effective for 10 years, so each year's tax credit awards are valued at \$36.0 million. In Iowa, the awards are made by the Iowa Finance Authority since 1987.¹

In March 1999, awards were made to 19 projects. Three individuals who did not receive tax credits objected to the 1999 awards, alleging the Authority did not have sufficient rules in place to make the awards as required by statute.² In July 1999, the Authority concluded the rules were not sufficient, withdrew the original 19 awards, and began developing new rules with which to award the 1999 tax credits. In the Fall of 1999, the new rules became effective

¹ SF 499, Low Income Housing Credits Act of 1987

² Sections 16.1(40) and 16.52(2), Code of Iowa

and developers were allowed to make amended proposals.³ On November 10, the Authority Board awarded 1999 tax credits to 19 projects. Of those 19 projects, 14 were in the original list selected in March, while five projects were not in the original list, and five projects selected in March were not selected in November. See **Attachment A**.

The projects approved in November will provide approximately \$26.5 million in cash to be used to construct 604 low-income housing units in 19 Iowa communities. The total cost of all projects will be \$48.0 million, for an average cost of \$79,400 per unit. Of this amount, 71.4%, or \$56,700 per unit, is from government funding sources.

PROJECT FINANCING

In most instances, the developer sells the tax credits to others, and uses the cash received from the sale to provide project financing. The amount of cash received for the 10-year tax credit depends on the present value at the time of sale, which is dependant on interest rates. The tax credits awarded in 1999 will have a present value equal to roughly 73.3% of the face value of the credits. For example, a tax credit awarded in 1999 of \$100,000 has a face value of \$1,000,000 over 10 years and a cash value to the project of \$720,000. The developer uses that \$720,000, in combination with other financial resources from government, nonprofit, and private sources to finance the construction of the project.

In return for the tax credits, the developer agrees to rent a specified number of units to low-income persons for a specified number of years. Low-income is defined as persons or families making 60.0% or less of the median family income for the county. The rent requirements run from 15 to 50 years, depending on the project proposal. The allowable rent, as established by the federal Department of Housing and Urban Development, is restricted to what is affordable to persons earning 60.0% of the median county income⁴.

The project developer receives a fee which is included as a project cost.⁵ For the 19 projects awarded credits in 1999, total developer fees were \$5.2 million, or 10.9% of total project costs. The developer may also profit from construction of the project if the developer is also the construction contractor.⁶ After construction is complete, the developer owns the project and may sell it, with the low-income rent requirements intact. If the developer retains the property, the developer receives rent and ancillary income (laundry, parking, etc.) and is responsible for management, any unabated taxes, and upkeep.

Attachment B shows the funding source breakdown for each project selected in the Fall 1999 round. The attachment shows the majority of projects rely not only on the tax credits for funding, but also on federal, state, and local financial assistance programs. The following table summarizes the project funding information found in **Attachment B**.

³ The original rules (effective at least since 1990), were less than two pages and addressed only application procedures, not scoring procedures. The new rules are more than 50 pages in length and apply only to the 1999 awards. The Authority will develop new rules for the tax credit awarded in 2000.

⁴ Housing and utility cost of approximately one-third of gross income is considered affordable.

⁵ The developer fee is limited to 15.0% of the cost of the project.

⁶ Construction contractor profit is capped at 6.0% of construction costs.

1999 Low Income Tax Credit Project Funding

(Dollars in millions. May not add due to rounding.)

Funding Source	Amount	% of Total Project Cost
Federal Tax Credits	\$ 26.5	55.3
Federal Programs	6.4	13.4
State/Local Incentives	1.3	2.7
Non-Profit Organizations	1.7	1.7
Private Lenders & Equity	12.0	25.1
Total Cost	\$ 48.0	100.0
Developer Fees	\$ 5.2	10.9

For the purposes of creating **Attachment B** and the preceding table, the funding sources were categorized as follows:

- Federal programs include the Home Investment Partnership (HOME) Program, Community Development Block Grants, and United States Department of Agriculture-Rural Development funds.
- State and local incentives include tax increment financing, enterprise zone tax credits, tax abatements, and the Iowa Finance Authority Housing Assistance Fund.
- Non-profit organizations include the Iowa Housing Corporation and the Federal Home Loan Bank.
- Private lenders and equity includes private sector loans and contributions, owner equity, and deferred developer fees.

BUDGET IMPACT

Because the tax credits are federal, the method of distribution has little, if any, impact on State revenues or expenditures.

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1999 Low-Income Housing Tax Credit Project Funding

Project Name	Project City	Number of Low Income Units	Federal	Federal	State/Local	Non Profit	Private	Total Project	Government	Developer
			Tax Credits	Federal			Source	Cost	Cost Per Unit	Fee
Call Terminal	Sioux City	36	\$ 1,941,000	\$ 1,225,000	\$ 472,600	-	\$ 927,340	\$ 4,565,940	\$ 101,072	\$ 340,000
Ivy Apartments	Humboldt	12	626,000	290,000	70,250	\$ 45,000	64,750	1,096,000	82,188	82,000
Pheasant Hollow	Grundy Center	16	861,661	200,000	125,000	-	264,234	1,450,895	74,166	171,638
Pheasant Run Apartments	Iowa Falls	32	1,731,610	420,000	27,542	-	622,088	2,801,240	68,099	338,378
Davenport Senior Housing II	Davenport	32	1,478,405	200,000	-	-	813,683	2,492,088	52,450	212,000
Hurst Apartments	Maquoketa	18	880,000	-	372,147	100,000	149,203	1,501,350	69,564	182,000
Cottage Grove	Muscatine	48	2,269,000	-	144,000	1,000,000	254,000	3,667,000	50,271	460,000
Kromer Flats	Des Moines	8	262,700	275,000	50,000	185,000	-	772,700	73,463	40,000
Carroll IHA Senior Housing	Carroll	24	374,235	1,250,998	24,000	-	1	1,649,234	68,718	187,379
Knoxville IHA Senior Housing	Knoxville	24	639,352	931,548	24,000	-	1	1,594,901	66,454	185,153
Southern Hills Apts - Phase II	Oskaloosa	30	1,227,700	-	-	-	942,300	2,170,000	40,923	250,000
Winnipeg Village	Forest City	16	734,785	-	-	331,010	207,078	1,272,873	45,924	94,300
Pineview Apartments	Waterloo	50	2,036,273	-	-	-	1,633,324	3,669,597	40,725	450,639
Lynnwood Apartments	Marion	39	1,634,415	-	-	-	1,336,811	2,971,226	41,908	361,706
The Arbor's	Grinnell	39	1,636,518	-	-	-	1,258,064	2,894,582	41,962	362,104
Deer Ridge Apartments I	Des Moines	92	4,063,980	-	-	-	2,527,245	6,591,225	44,174	775,000
Meadow Wood of Carroll, Ph II	Carroll	24	1,157,000	475,152	-	-	278,010	1,910,162	68,006	240,000
Countryside of Clinton	Clinton	32	1,388,000	597,526	-	-	281,010	2,266,536	62,048	265,250
Meadow Lake Apartments	Clear Lake	32	1,587,000	561,704	-	-	475,010	2,623,714	67,147	223,600
		<u>604</u>	<u>\$ 26,529,634</u>	<u>\$ 6,426,928</u>	<u>\$ 1,309,539</u>	<u>\$ 1,661,010</u>	<u>\$12,034,152</u>	<u>\$47,961,263</u>	<u>\$ 56,732</u>	<u>\$ 5,221,147</u>

1999 Low-Income Housing Tax Credit Awards

Project Name	Project City	Investor Contact	Number of Low Income Units	Tax Credit Annual Value	Approximate Total Tax Credit Cash Value *
<u>Awarded in March and November</u>					
Call Terminal	Sioux City	Doug LaBounty	36	\$ 258,800	\$ 1,897,004
Ivy Apartments	Humboldt	Doug LaBounty	12	79,241	580,837
Pheasant Hollow	Grundy Center	Richard Helgeson	16	115,048	843,302
Pheasant Run Apartments	Iowa Falls	Richard Helgeson	32	223,886	1,641,084
Davenport Senior Housing II	Davenport	Timothy Puls	32	199,800	1,464,534
Cottage Grove	Muscatine	Larry Whitty	48	324,540	2,378,878
Kromer Flats	Des Moines	Stella Neill	8	37,529	275,088
Knoxville IHA Senior Housing	Knoxville	Robert Burns	24	96,262	705,600
Southern Hills Apts - Phase II	Oskaloosa	Clark Colby, Jr	30	179,730	1,317,421
Pineview Apartments	Waterloo	Lawrence Mazzotta	50	271,503	1,990,117
Lynnwood Apartments	Marion	Lawrence Mazzotta	39	217,922	1,597,368
Meadow Wood of Carroll, Ph II	Carroll	James Levy	24	158,493	1,161,754
Countryside of Clinton	Clinton	James Levy	32	187,568	1,374,873
Meadow Lake Apartments	Clear Lake	James Levy	32	217,397	1,593,520
<u>Awarded in November but not in March</u>					
Carroll IHA Senior Housing	Carroll	Robert Burns	24	\$ 57,466	\$ 421,226
Deer Ridge Apartments I	Des Moines	James Conlin	92	549,200	4,025,636
Hurst Apartments	Maquoketa	Chris Ales	18	126,198	925,031
The Arbor's	Grinnell	Lawrence Mazzotta	39	218,162	1,599,127
Winngate Village	Forest City	Larry L. Tuel	16	99,700	730,801
Total 1999 Awards (November Awards)			604	\$ 3,618,445	\$ 26,523,202
<u>Awarded in March but not in November</u>					
Meadow Crest Gardens, L.P.	Davenport	John McChurch	38	\$ 202,449	
Northern Ponca Tribal Housing	Sioux City	Howard Leederman	10	111,719	
Maquoketa IHA Senior Housing	Maquoketa	Robert Burns	24	109,961	
Riverview Place II Apartments	Iowa City	Lawrence Mazzotta	34	211,402	
Alpine Heights Senior Apts	Dubuque	Steven Boge	37	224,110	

* Calculate by multiplying the Tax Credit Annual Value by 10 years, and then multiplying that result by 73.3%, which approximates the present value of the 10 year tax credit.