

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

**CITY COUNCIL
COMMUNICATION:**

02-538

AGENDA:OCTOBER 21,
2002**SUBJECT:**CHANGES TO
LOW INCOME
HOUSING TAX
CREDIT**TYPE:****RESOLUTION**
ORDINANCE
RECEIVE/FILE**SUBMITTED BY:**JIM GRANT
COMMUNITY
DEVELOPMENT
DIRECTOR**SYNOPSIS —**

Summary and background of the Low-Income Housing Tax Credit (LIHTC) Program and the City's Affordable Housing Policy used to review the rental housing projects.

FISCAL IMPACT —

N/A

RECOMMENDATION —**Receive and file.****BACKGROUND —**

On the City Council agenda of November 4, 2002 will be several applications from developers to the Iowa Finance Authority (IFA) requesting LIHTCs. The LIHTC is one tool to encourage developers to build and renovate low-income rental housing. Persons and families served by the program are those below 60% of the median income. There are also restrictions on the amount of rental that can be charged.

The developer is required to notify the governing body in the jurisdiction in which the LIHTC project will be built and seek a resolution that supports the project. The applications are scored on a point basis. The developer receives extra points if the project is endorsed by the City, but is not penalized if the City does not endorse the project. An application may receive tax credits, based on its total score, even if the City fails to support the project.

The application process also requires the developer to ask the City for proof of zoning, proof of utilities, and proof of any local government contribution such as tax abatement.

Property Tax Assessment Changes

In 2001, the State Legislature passed legislation that changes the tax assessment on Section 42 housing from a market approach to an income approach. Section 441.21, Subsection 2 of the Iowa Code was amended to instruct the assessor to use the productive and earning capacity of the project from the actual rents received as a method of appraisal and to take into account the extent to which that use and limitation reduces the market value of the property. For existing projects, the assessor gives the project an assessed value based on income and expense data for up to three previous years. For just completed projects, the assessor will review the cash flow projections.

In Des Moines, LIHTC projects declined in assessed value an average of 24% from 2001 to 2002. (Calculated on both new construction and rehabilitation of projects that are 8 units or larger.) Projects ranged in the modification of their assessment from 51% at Fort South II Apartments at 6500 SW 9th to a 0% reduction at the Good Samaritan units at 2010 - 6th Avenue (see spreadsheet attached to roll call).

Other Changes to the LIHTC Program

- The IFA is awarding additional points for better-designed developments, for example using brick or better windows.
- IFA is filing a Land Use Restrictive Agreement (LURA) with the land title that ensures that a project will remain low-income for the full time that the developer has selected on the application. For example, some of the projects in the last round of LIHTC stated in their application that the low-income units would be available for 50 years. The LURA would be filed reflecting that 50-year time period.
- IFA will require an on-site inspection of properties every three years.
- IFA has increased the requirements for a market study.

City's Existing Policy for Review

In 1994, the City Council amended the City's Comprehensive Plan to institute guidelines for reviewing LIHTC projects or any other programs that provide new construction money for rental housing designed for persons under 80% of the median income. The policy includes review criteria for both low-density developments and multi-family housing projects. To receive a letter of support for a multi-family housing development, the developer must demonstrate to staff and Council that:

- The development's design is sensitive to and compatible with the character of the surrounding neighborhood;
- Management services are adequate and responsive to the needs of low-income tenants;
- Appropriate amenities, including storage facilities for toys and other large items, are provided; and
- A recognized neighborhood organization has been given the opportunity to comment on the project's design, management services, and amenities.

Last year, City staff asked IFA staff if it would help a project's score if the City Council prioritized projects within the city. The IFA scoring system is complex and multi-faceted. It is based on IFA priorities and much financial data. IFA would only consider the Council's prioritization if there were a tie between projects located within a city. Simply put, the project receives points if it has a letter of support from the governing body, it does not receive points if it does not have such a letter.

Background on LIHTC

The Tax Reform Act of 1986 created the LIHTC for project owners to invest in the development of rental housing for individuals and families with fixed or limited incomes. The tax credit, rather than a direct federal subsidy, provides a dollar for dollar reduction (or credit) to offset an owner's federal tax liability on ordinary income. The Tax Credits are generally syndicated which allows the developer to raise equity in the project. Projects funded by the LIHTC are often referred to as Section 42 Housing referring to the Section of the IRS Code governing the program.