

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date	December 8, 2008
	Agenda Item No. 45 Roll Call No. 08- Communication No. 08-729 Submitted by: Larry Hulse, Director Community Development Department	

AGENDA HEADING:

Recommendation for City Council criteria for review and support of Low Income Housing Tax Credit (LIHTC) Applications

SYNOPSIS:

The Iowa Finance Authority (IFA) has reinstated awarding points for City Council approval of a LIHTC project. IFA asks local governments to comment if they support the project, have a preference for one project over others or if they oppose the project. On October 27, 2008, the City Council supported nine applications for receipt of LIHTC but requested additional criteria for review before supporting additional applications. The communication and roll call include review criteria to be adopted and utilized for additional submittals.

FISCAL IMPACT:

Amount: See Pages 3 and 4 for discussion on the projected impacts to the property tax base.

Funding Source: N/A

ADDITIONAL INFORMATION:

The Iowa Finance Authority (IFA) has made substantial changes to the application process for Low Income Housing Tax Credits (LIHTC) because of the dramatic increase in funding from the Heartland Disaster Tax Relief Act of 2008 and Housing and Recovery Act of 2008. To effectively utilize the increase in credits, IFA has instituted an open door policy for applications which allows developers to submit projects any time throughout the year. Projects must still serve persons and families below 60% of the median income, meet strict underwriting and show a market demand for their proposed housing, but major changes have been made to the scoring and to set-aside categories.

IFA has reinstated awarding 10 points to the project if the city council provides a current letter of support and preference for the project among other projects under consideration. When there are competing projects for Federal low income housing tax credits from a city, it is valuable for the Iowa Finance Authority (IFA) to know which projects the city both supports and prefers over other similar tax credit applicants. IFA does not require the project have a letter of support to receive funding, but particularly wants to know if a city or county has a preference or objects to the project. There is no cap on the number of units that a city can support.

To meet a threshold level for consideration, IFA still requires projects to obtain letters or certifications from local officials on the following:

- Local contributing effort to a project for underwriting purposes;
- Letter of correct zoning; and
- Adequacy of infrastructure and utilities.

IFA still requires a proposed development to receive 150 points from the IFA scoring section but those points can be for a wide variety of items relating to location, building characteristics, resident profile and impact on the environment. A project does not have a better chance of IFA funding if it receives 200 points versus 150.

The largest obstacle for developers may be the ability of developers to sell the credits in order to raise equity for the project. Syndicators reportedly are asking for “plain vanilla projects” which have as few variations, such as tenant mix and unit type, as possible. For example, local and out-of-state developers are reporting it seems to be difficult to sell credits with mixed-income units. The developers also would like to minimize any housing set aside for units at 40% of median income because of the additional difficulties in syndicating.

In the past the number of LIHTC units was limited per year because of the credit availability. The influx of new projects that reflect current market conditions can have a major and long lasting impact on the development of the city, its revitalization and its tax base. It is essential that adequate information is provided to the city by developers and that all aspects of the project are considered carefully. The proposed review criteria considers the information summarized under the headings “Impact of LIHTC on Neighborhoods and Downtown” and LIHTC and Property Taxes. Briefly, Council and staff must always consider the impact a concentration of projects has on a neighborhood and that the taxes on LIHTC are reduced and will not provide a great deal of income to the city property tax stream.

Proposed Criteria and Process for Review and Support

In response to the Council’s request at the October 27, 2008 meeting, the following is recommended for adoption as the process and evaluation criteria for making recommendations on developer submittals for funding affordable housing in Des Moines.

Review Process: Before City Council reviews the projects, the developer should attend a pre-application meeting with City staff to ensure that the zoning and physical infrastructure is adequate for the development. A general neighborhood meeting should be held with a recognized neighborhood organization with adequate information to allow the neighborhood to make comments on the project’s ability to address design, management services and amenities prior to City Council action.

- Only support projects that contain 100% assisted units, if they are located near market rate rental or owner-occupied housing to avoid concentration of assisted units. Within census tract 51 (downtown) support projects where there is existing or potential for market rental or owner-occupied housing within a two block radius of the projects to avoid isolation of assisted housing projects.
- Support projects that meet the housing needs identified in the City’s Consolidated Plan, including rental units for families below 50% of median income and three bedroom or larger units.
- Support projects that develop on an infill parcel with connectivity into a neighborhood including a link to schools. Infill is defined as a Brownfield site, a location that includes demolition of a non historic dilapidated building, property that has previously been developed, or centrally located site available for development because of infrastructure improvements. Projects on a

commercial corridor should develop links to neighborhoods or pedestrian areas to gain City Council support.

- Support projects for which City Council has entered into development agreements or has authorized staff to begin negotiation including sale of land or commitment of funding. Council should support all projects to which it may support through land contribution, Tax Increment Fund dollars, or federal allocation dollars.
- Support projects that are certified by LEEDS (Leadership in Energy and Environmental Design) or other resource sustainable program and/or utilize energy saving technology such as geothermal heating and cooling.
- For rehabilitation of existing assisted or market units, support projects that make substantial external and energy efficient improvements including the use of brick on the outside, conformance with the city's landscape standards and energy efficient heating and cooling systems.

In 1994, the City Council amended the City's Comprehensive Plan to institute guidelines for reviewing LIHTC or any other programs that provide new construction funding for rental housing designed for persons under 80% of median income. The overall goal is that affordable housing be spread equally through the community and not concentrated in any one area of the city. The comprehensive plan also includes the following criteria to evaluate proposals:

- The development's design should be sensitive to and compatible with the character of the surround neighborhood;
- The management services must be 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.

Impact of LIHTC on Neighborhoods and Downtown - IFA Study

In 2007, the Iowa Finance Authority commissioned a study at the University of Iowa to evaluate the impacts of LIHTC projects on neighborhoods. From a thorough evaluation of data from the Polk County Assessor, the report concluded that many types of affordable housing developments can have positive economic effects on their surrounding neighbors and well-designed affordable housing can help to jump-start stagnant neighborhood housing markets. Where negative effects were observed, these effects were small and short-lived; affordable housing developments do not appear to endanger neighborhood quality of life. Findings included:

- Larger family housing developments slowed neighboring property value appreciation in Polk County by 3.8% in the first year or two after developments were approved, but had no significant effect once developments were established (three to four years after approval).
- Mixed-income, high-quality developments had no significant effect on neighboring values during the first year or two, but once developments were established, had significant positive effects on property values, increasing them on average by 8%.
- Elderly housing developments increased neighboring property value appreciation by about 5% in the first year or two, but had no significant further effect.
- Homes that are near more than one project result in a larger slowdown in value appreciation. This may indicate that clustering subsidized projects may

have undesirable effects on neighboring property values. Few of the individual effects identified are large and significantly negative, but distributing those small costs evenly among neighborhoods is important to avoid exacerbating costs through concentration.

The report acknowledges that the Des Moines City Council has used clear criteria in furthering IFA review of projects and limiting its support of projects when there was a cap of units in the Count.

Property Taxes and LIHTC projects

In 2001, the State Legislature passed legislation that changed the tax assessment on LIHTC 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 reviews the cash flow projections. When staff evaluated this impact several years ago, LIHTC projects were paying approximately 25% less in taxes than they had paid under the old system of assessment.

The International Building Code adopted by the City of Des Moines requires that multi-family rental housing be built to the same standards as individual units ("condominiums") in a horizontal property regime. Therefore, all multi-family projects that are new construction or converted from a commercial use are able to utilize a horizontal property regime for tax valuation purposes. The filing of a horizontal property regime separates out the units for individual ownership and designates the percentage of ownership each unit has in the common areas. The filing of a horizontal property regime causes the property to be re-categorized for tax purposes from a single multi-family commercial building to a collection of single-family residential dwellings. When the horizontal property regime is used, the property taxes go down with the residential roll back but the potential net income for a LIHTC project goes up because of less taxes paid. That results in an increase in the assessed value as determined under the Section 441.21, Subsection 2 of the Iowa code, so the tax advantages of the roll back are mitigated somewhat.

Older units built prior to the adoption of the current building code do not satisfy the requirements for conversion to a horizontal property regime and the improvements necessary to convert to a horizontal property regime are generally cost prohibitive.

PREVIOUS COUNCIL ACTION(S):

Date: October 27, 2008

Roll Call Numbers: 08-1900 through 1908

Action:

Applications to Iowa Housing Finance Authority requesting low-income housing tax credits for the following: (Council Communication No. 08-650) Moved by Kiernan to adopt Motions carried 7-0, except 1905 carried 6-0, Council Member Hensley declares a conflict of interest and abstains from voting..

Date: November 21, 2003

Roll Call Numbers; 03-2654

Action: Approval of Council Policy regarding support for Low Income Housing Tax Credit projects. (Council Communication No. 03-559) Moved by Coleman to adopt. Motion Carried 6-1.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

All applications submitted for low income housing tax credits will placed on a city council agenda for a support or fail to support action.

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