

Property Tax Exemption for Affordable Housing

City Council Work Session Presentation
May 3, 2022



Low –Income Housing Tax Credits Financed through Texas Department of Housing and Community Affairs (TDHCA)

4% Low Income Housing Tax Credit (LIHTC) Programs

- **Developer initiated MF affordable to those earning 60% or less of Area Median Income (AMI)**
 - Requires City Council Resolution and neighborhood support
 - MHFC issues bonds and earns issuer fee
 - Co-developer MHFC earns developer fee, cash flow
 - 100% ad valorem tax abatement for affordability period

9% Low Income Housing Tax Credit (LIHTC) Program to those earning 30% - 80% of Area Median Income (AMI)

- Deeper subsidies possible because of greater equity from tax credits
- Requires City Council Resolution and neighborhood support
- No MHFC involvement
- No ad valorem tax abatement

Public Facility Corporations (PFCs) created under Section 303.42(f) of the Texas Local Government Code

Public Facility Corporations (PFC) Financed through Private Investors and equity gained through ad valorem tax abatement

- No City Council Resolution or neighborhood support required
- Co-developer MHFC developer fee, cash flow
- 100% ad valorem tax abatement for negotiated period
- Deeper subsidies possible due to fewer fees/regulation than tax credit projects

PFCs and 4% tax credit projects solicited under most recent McKinney Housing Finance Corporation (MHFC) affordable multi-family RFQ

PFC projects solicited under most recent McKinney Housing Authority (MHA) affordable multi-family RFQ

Public Facility Corporation Section 303.042(f) Overview

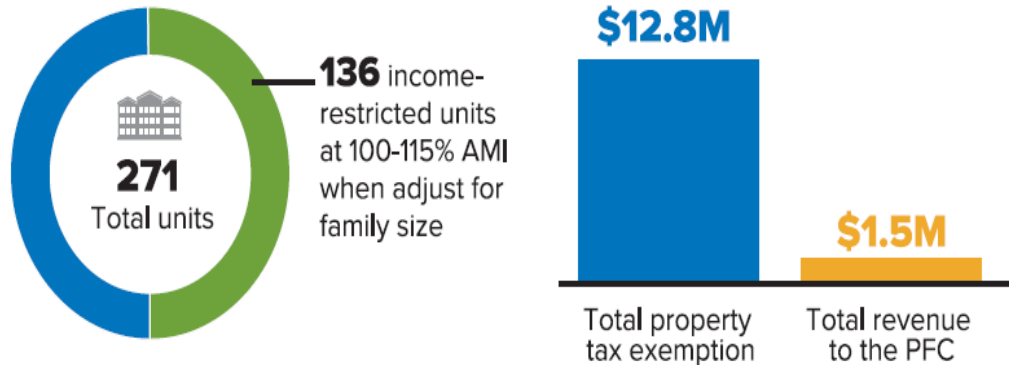
- At least 50% of units must be restricted to those earning 80% or less of AMI
- Remainder of units can be market rate
- Since 2016, at least 30 apartment complexes in Texas have been acquired, developed or are in active development. Sixteen (16) of these have occurred since 2019
- The McKinney Housing Authority and McKinney Housing Finance Corporation are the only two entities in the City of McKinney eligible to partner on PFC developments
- No compliance reviews or annual audit
- \$7,822 average annual property tax exemption per unit per year

<https://law.utexas.edu/wp-content/uploads/sites/11/2020/09/2020-ECDC-PFC-Report.pdf>

Issues with Public Facility Corporations

- The Section 303.042(f) exemption's marginal financial returns to PFCs can be outstripped by the property tax losses
- Subsidy provided through the exemption is very large—an average of \$7,400 a unit a year, or \$148,000 per unit over 20 years

**The Baldwin: Revenue to the City of San Antonio
vs Property Tax Exemptions 2019-2029**



\$94,376 Total property tax exemption per rent-restricted unit over 10 years

Issues with Public Facility Corporations

- Section 303.042(f)'s income restrictions do not require adjustments in household size, the income restrictions utilized at the exempt properties end up largely targeting middle-income renters making 100-115% of the area median income (AMI)—a group of renters adequately served by the market
- PFC projects can discriminate against tenants with vouchers
- There is no competitive process required by the State
- Both the City and Housing Authority within a jurisdiction can create Public Facility Corporations leading to competition between the two for developments and cash flow if policies between the two are not consistent

<https://law.utexas.edu/wp-content/uploads/sites/11/2020/09/2020-ECDC-PFC-Report.pdf>



Policies to Mitigate Public Facility Corporation Issues

- 1. Perform underwriting on each development and negotiate developer fees and cash flow**
- 2. Require 5% of units be set-aside for those making 30% or less of AMI**
- 3. Income qualification for everyone in the apartment, not just the person signing lease**
- 4. Require development to accept Housing Choice Vouchers (Section 8)**
 - This is a requirement of all federally funded developments
- 5. Require an RFQ Process**
 - Require RFQs for all MHA and MHFC affordable developments
- 6. Consistent policies between McKinney Housing Authority and McKinney Housing Finance Corporation**

GAPS IN RENTAL MCKINNEY RENTAL MARKET - 2018

Renter Incomes	Maximum Affordable Gross Rent	Rental Demand (Current Renters)		Rental Supply (Current Units)		Gap
		Num.	Pct.	Num.	Pct.	
Less than \$5,000	\$125	1,438	7%	0	0%	(1,438)
\$5,000 to \$9,999	\$250	630	3%	80	0%	(550)
\$10,000 to \$14,999	\$375	797	4%	177	1%	(620)
\$15,000 to \$19,999	\$500	522	2%	134	1%	(388)
\$20,000 to \$24,999	\$625	835	4%	329	2%	(506)
\$25,000 to \$34,999	\$875	2,142	10%	1,929	9%	(213)
\$35,000 to \$49,999	\$1,250	2,613	12%	7,929	37%	5,316
\$50,000 to \$74,999	\$1,875	4,433	21%	6,918	32%	2,485
\$75,000+	\$1,875+	7,792	37%	4,182	19%	(3,610)
Total/Low Income Gap		21,202	100%	21,677	100%	(3,716)

Rental gap of 3,716 units affordable to households earning <\$35,000

Source: 2018 1-year ACS and Root Policy Research.

For households at 30% AMI or less, 27% are seniors, 19% have a household member with a disability and 37% are in the labor force. <https://nlihc.org/gap>

Source: domu.com/rent-calculator

McKinney Rental Market for 30-50% AMI Households

30% - 50% of Area Median Income							
1	2	3	4	5	6	7	8
\$18,700	\$21,400	\$24,050	\$26,700	\$28,850	\$31,000	\$33,150	\$35,250
-	-	-	-	-	-	-	-
\$31,150	\$35,600	\$40,050	\$44,500	\$48,100	\$51,650	\$55,200	\$58,750
Affordable Rent							
\$500	\$550	\$650	\$700	\$750	\$850	\$900	\$950
-	-	-	-	-	-	-	-
\$850	\$950	\$1,025	\$1,200	\$1,300	\$1,400	\$1,450	\$1,550
Average Rents in McKinney							
1 BD		2 BD		3 BD		4 BD	
\$1,106		\$1,433		\$1,883		\$2,303	

Market Data 2019 – NRP Group Market Study

Public Facility Corporation



- Approve Resolution Authorizing the Formation of the PFC
- Approve Articles of Incorporation
- File paperwork with the Office of the Secretary of State of Texas
- Review Partnership Opportunities as RFQ submissions are received