

# 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

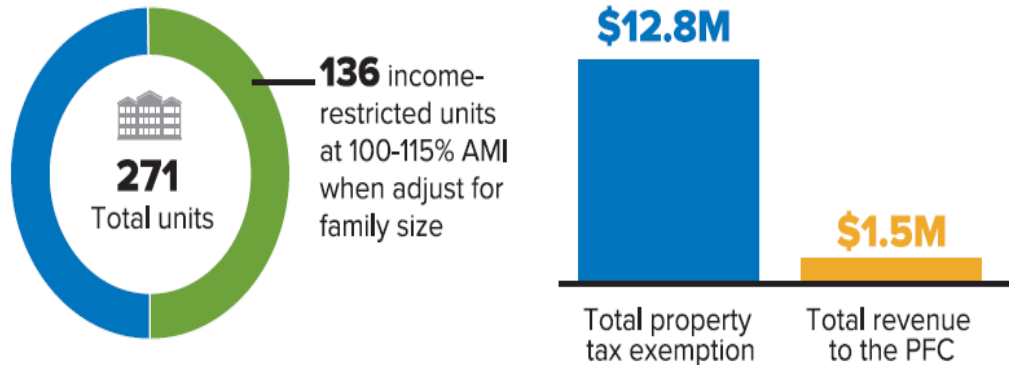
- At least 50% of units must be restricted to those earning 80% or less of AMI
- Remainder of units can be market rate
- Since 2016, at least 30 apartment complexes in Texas have been acquired, developed or are in active development. Sixteen (16) of these have occurred since 2019
- The McKinney Housing 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