Frequently Asked Questions

Low Income Housing Tax Credits and Public Housing

Cambridge Housing Authority
How Do Low Income Housing Tax Credits Work?

- A corporate investor will invest money up front in an LIHTC property in exchange for subtracting the tax credit allocation from its tax bill each year for ten years.
- The money raised from the sale of the tax credits is used as equity for a portion of the cost of developing or rehabilitating low-income housing rental units.
Does the Investor Get Repaid?

- The investor’s equity contribution does not have to be paid back, provided the investor receives the tax credits estimated by the developer.
- The property transfers to the investor with requirements that the units stay affordable for 30 years or more.

At JFK Apartments, where the CHA has used tax credits, the CHA kept ownership of the land, transferring only the building.
How Were Tax Credits Used at JFK Apartments?

The CHA undertook a multi-year planning process with residents to review funding and design options, and to negotiate a resident relocation plan.
How Were Tax Credits Used at JFK Apartments?

Tax credits were used to undertake a significant rehabilitation of the building.

Resident input was key in areas such as:

- Switching ownership as a means to raise $104,500 per unit to pay for renovations (or about 2/3 the rehab cost).
- Enclosing the balconies
- Replacing the bathtubs with shower units
- Determining which lease to use

The process led to the formation of a resident council after two years.
Does It Make a Difference to Have a Tenant Council at the Time of Transition?

- Yes, it is always better to have organized tenants. But regardless of tenant organization status, CHA will have a full review and input process with residents. It is always best to have as many residents as possible engaged in and contributing to the process.
What happens after ten years and the period of compliance ends?

There are several dates to keep in mind:

**10 years**: This is the period over which the investor can subtract the tax credits that were allocated.

**15 years**: This is the initial period of compliance and the date at which the CHA or one of its affiliates is eligible to purchase the project.

**30 years**: This is the minimum low-income affordability term for a LIHTC project in Massachusetts. Specific projects, like the CHA’s, have longer affordability terms.

The CHA envisions that after the initial 15 year compliance period, it, or one of its affiliates, will purchase the project.
Who are the CHA Affiliates or Non-Profits?

- **Cambridge Affordable Housing Corporation (CAHC)**
  - CAHC is a nonprofit 501(c)(3) corporation
  - Owns 59 units
  - Acts as manager/developer of the new YWCA Apartments LLC which may have 42 units

- **Essex Street Management, Inc. (ESMI)**
  - ESMI is a nonprofit 501(c)(3) corporation
  - Owns 22 units

- **Kennedy Management, Inc. (KMI)**
  - KMI is a nonprofit 501(c)(3) corporation
  - Manager of two tax credit properties:
    - Lancaster St Apartments, LLC
      - 65 units
    - JFK Apartments, LLC
      - 69 units
Who Oversees The CHA Affiliates or Nonprofits?

- The CHA Board of Commissioners plus the CHA Executive Director form the boards of each non-profit. Three senior staff of the CHA are designated as authorized signatories.
Who Are the Potential Investors and How Do They Benefit?

- **The Investors**
  - Most appropriate LIHTC investors are “C” Corporations that are widely held. “C” Corporations are required to pay taxes on their profits.

- **They are motivated by:**
  - the desire for a relatively profitable and low-risk tax shelter, and
  - the desire to invest in their local communities.
  - For example, banks motivated by Community Reinvestment Act (CRA) regulations are relatively active players in the tax credit market.
How Is the Investor Selected and What is the Role of the Residents?

- The CHA issues a Request for Proposals (RFP) to Equity Investors that includes:
  - Financial projections
  - Rehabilitation scope and costs
  - Affordability restrictions

- CHA encourages residents to participate in the selection process.
What Rights Does the Investor Have?

- The investor is usually one of the owners of the property.
- The investor often has a 99.99% economic interest in the property in order for the tax credits to flow to the entity that can benefit from them.
- The investor’s rights are negotiated in a Partnership or Operating Agreement.

Typical rights include:
- Approval of
  - the property manager
  - insurance coverage
  - major capital expenditures
  - annual operating budget
  - replacement reserve amounts
  - replacement of professionals engaged by the ownership entity such as the auditor
- Compliance oversight
  - Receipt of regular operating and compliance reports
  - Periodic (at least annual) property visits
    - Physical inspections
    - Resident file reviews
What Rights Does the CHA or a CHA Affiliate Have?

- The CHA is the developer of the project, but has no ownership in the buildings of its three LIHTC deals to date.
- A CHA affiliate is manager of the ownership entity for 2 of its 3* LIHTC deals. It is responsible for:
  - Selecting the property manager
  - Supervising the property manager
  - Overseeing annual audits
  - Preparing regular investor reports
- Right of first refusal to purchase the property at the end of the tax credit period.

The CHA intends to continue to be the property manager for any public housing developments receiving LIHTCs for which it is the developer.

*Neville is the one LIHTC project that the CHA is not the manager.*
How Will Residents be Affected?

- Annual income recertifications are a must. We hope to be able to keep all or a portion of CHA’s rent simplification in federal public housing projects with tax credits.
- Annual unit inspections will increase for some. Notification will be the same.
- All student households are not permitted.
- Current household immigration requirements remain the same based on existing programs.

The CHA will negotiate to maintain its current lease policies and practices at any LIHTC project.
What Resident Policies Will Change at a CHA Tax Credit Property?

- Once the Board of the Alliance of Cambridge Tenants is established, the CHA will meet with representatives of the group to develop a framework for creating (to the greatest extent possible) a standardized set of policies and procedures for CHA projects with tax credits.
Will the Investors and Lenders Approve?

- The CHA will negotiate with its investors and lenders to maintain its current lease policies and practices at any state or federal public housing project where it uses tax credits.

- The investors and lenders are primarily interested in policies that assure financial compliance in areas such as:
  - Annual income recertification
  - Annual resident file reviews
  - Regular financial reporting, including the annual audit
  - Periodic physical inspections of the property and some units
What Policies are **Unlikely** to Be of Primary Interest to the Investor?

- Admissions (except income eligibility)
- Security deposits
- Pets
- Form of lease
- Eviction private conferences
- Grievance procedures
- Reasonable accommodations
- Limited English proficiency policies
What Happened at JFK Apartments?

- JFK Apartments was the CHA’s first project to use tax credits. It uses virtually all of the CHA’s federal public housing policies, including:
  - the lease
  - the pet policy
  - the grievance procedure
  - the tenant selection process
Will the CHA “grandfather” current residents?

Yes!

(Of course, a resident must remain in good standing that is, in compliance with lease).
What if a Current Household Does Not Meet the LIHTC Eligibility Requirements?

- **LIHTC Income Requirement:** Household income may not exceed 60% of Area Median Income.

- **CHA Solution**
  - CHA assumes some family households will exceed 60% of AMI. CHA will not seek 100% tax credits for family properties so current households with higher incomes can remain under public housing income eligibility criteria.
What if a Current Household Does Not Meet the LIHTC Eligibility Requirements?

- **LIHTC Student Requirement:**
  - An all student household is not eligible.
  - No grandfathering due to student status.

- **CHA Solution:**
  - The CHA estimates it is likely to apply for tax credits for 80% to 90% of a project’s units, rather than 100%, to avoid relocating any households who do not meet LIHTC eligibility requirements.
How Will the CHA Handle the Different State and Federal Rules on Immigration Status?

- LIHTC and State Public Housing Immigration Requirements
  - No immigration status requirements
- Section 8 Housing Choice Vouchers and Federal Public Housing
  - One or more households must have legal status

CHA Solution
- CHA has proposed an alternative rent formula through Moving to Work for families with mixed immigration status living in apartments transitioning from state to federal public housing to mitigate the impact the transition might otherwise have.
Would Different Rules Apply to Existing vs. New Residents?

- No. The CHA does not differentiate.
- The rules would be the same for both existing and new residents, by program type, as they are now.
Who Would Be Eligible to Live in Tax Credit Housing and for Continued Occupancy?

- Income eligible households in accordance with the Admissions and Continued Occupancy Policy (ACOP) developed for a project using low income housing tax credits.
What Happens If After You Move in Your Income Goes Above the LIHTC Income Limit?

- A household continues to be eligible to live at the LIHTC property.
- If a household’s income goes above 140% of area median and the property is not 100% LIHTC, then the Owner must rent the next available unit to a LIHTC eligible household.