

 <p style="text-align: center;"><b>Council Communication</b> Office of the City Manager</p>	<b>Date:</b> August 26, 2013
	<b>Agenda Item No.</b> 27 <b>Roll Call No.</b> <u>13-1334</u> <b>Communication No.</b> <u>13-440</u> <b>Submitted by:</b> Phillip Delafield, Community Development Director

**AGENDA HEADING:**

Authorizing the City Manager to sign a letter requesting changes to Iowa Finance Authority (IFA) 2014 Qualified Allocation Plan (QAP) for the 2014 Low-Income Housing Tax Credit (LIHTC) Round.

**SYNOPSIS:**

Public comments for the 2014 LIHTC QAP are due to the Iowa Finance Agency (IFA) on August 27, 2013. The QAP is a summary of regulations and scoring criteria for the LIHTC program. The 2014 QAP has been changed significantly from the previous year. The major changes to the QAP include a significant reduction in total points available and a reconfigured cost cap formula.

**FISCAL IMPACT: NONE**

**ADDITIONAL INFORMATION:**

IFA manages the LIHTC program for the State of Iowa. Prior to the opening of the application period, IFA publishes a draft of the QAP, which is the summary of the regulations and scoring criteria for the 2014 LIHTC program. IFA is accepting public comments for the 2014 QAP until August 27, 2013.

The 2014 QAP was changed significantly from 2013. The total number of points available was reduced from 520 to 370. Scoring priorities have changed to prioritize new construction of family housing. The local government contribution was reduced from 50 points to 30 points, and the cost cap formula was changed from a hard cap to a two-tiered cost cap approach. After examining the new QAP, staff believes many of these changes may have a positive impact on our community. However, there are areas of concern that staff believes should be modified before the final QAP document is released this fall.

The most significant change from 2013 to 2014 is the revised cost cap formula. Prior to 2014, IFA had a hard cost cap, based on the number of bedrooms in a unit. The cost cap was the maximum amount of cost per unit the project could have. For example, the cost cap for a three (3) bedroom unit in 2013 was \$190,000 per unit, meaning the total cost of a 10 unit building could not exceed \$1.9 million.

For the 2014 funding cycle, a two-tiered cost cap approach is being established. Instead of one (1) hard cap, there are now two (2) caps. The first cap is the project maximum, which is the total amount of costs allowed per unit. For 2014, IFA proposes this as the 221 (d) (3) HOME limits, which on average are approximately 10% higher than the 2013 per unit cost cap.

The second piece of the new two-tiered approach is the per unit tax credit cap, which is the maximum amount of tax credits allowed per unit. The per unit tax credit caps IFA has proposed for 2014, are approximately 20%-30% lower than the 2013 per unit cost cap.

City staff advocated for the two-tiered cost cap approach. Staff believes the new cost cap formula provides the City will the flexibility necessary to develop complicated projects that work within the fabric of existing neighborhoods. However, staff is concerned about the per unit tax credit allocation established in the Draft QAP. Staff is concerned the reduction in tax credits available per unit will force developers to find significant additional gap financing or will lead to a significant reduction in construction quality and unit amenities.

IFA also created new category of projects. Starting in 2014, all rehab projects will use the same project maximum caps and per unit cost cap allocations. Because a building built in 1993 and a building built in 1925 require significantly different rehabilitation needs, staff is concerned about this new funding category.

Staff recommends IFA move forward with the two-tiered cost cap approach. Staff believes the 221 (d) (3) limits are sufficient for project maximum costs. However, staff believes the per unit tax credit allocation should initially be set at the 2013 cost cap amounts, which will give everyone a year to determine the impact this change will have on the LIHTC program. After the 2014 funding cycle, staff would like to meet with developers and IFA to determine the impact of these changes on the program.

Another change for 2014 is the reduction in the Local Government Contribution. In past years, projects could receive up to 50 points (approximately 10% of total points available) for the amount of funding a local government could provide projects. Due to tax abatement and enterprise zone credits, most projects in Des Moines received these 50 points. This was one of the key reasons why many tax credit projects were funded in Des Moines in recent years. For 2014, this category was reduced to 30 points (8% of total points available). Staff would like to see the number of points in this category increase to 40 points, which would be a similar percentage of points from 2013.

#### **PREVIOUS COUNCIL ACTION(S):**

Date: September 10, 2012

Roll Call Number: [12-1472](#)

Action: [Authorizing](#) the Mayor to sign a letter requesting changes to the Iowa Finance Authority's 2013 Qualified Allocation Plan for the 2013 Low Income Housing Tax Credit Round. Sponsor Mayor Cownie. Moved by Meyer. Motion Carried 7-0.

Date: November 7, 2011

Roll Call Number: [11-1848](#)

Action: [Communication](#) from the City Manager regarding changes in Iowa Finance Authority's (IFA) Qualified Allocation Plan (QAP) for 2012 Low-Income Housing Tax Credit round. Moved by Hensley to receive and file, and authorize the Mayor to send a letter on behalf of the City Council to IFA outlining the City's concern that the changes will adversely affect development in Des Moines;

refer to the City Manager to communicate with IFA the City's desire to have a mechanism for the City to have input. Motion Carried 7-0.

**BOARD/COMMISSION ACTION(S): NONE**

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE**

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