INCOME-QUALIFIED HOUSING IN MCLEAN COUNTY

ISSUE 2: TYPES OF UNITS AND VOUCHERS

PAPER #2A

Introduction

Income-Qualified Housing refers to rental housing units designated for households making less than 80% of the area median income (AMI); tenants in these programs must be "income-qualified." In general, these programs ensure that participating households pay no more than 30% of their income toward rent plus utilities. A property, unit or voucher that is "income-qualified" receives some level of financial assistance to maintain affordability for households making less than 80% AMI, while keeping up with maintenance and other expenses.

This financial assistance is provided either at the time of development (via tax credits to the developer) or as ongoing subsidy payments. In either case, affordability requirements or subsidies have expiration dates based on individual contracts with the federal government. The purpose of this paper is to explain the different types of assistance and, quantify the availability of income-qualified housing units and compare that to the need of such units in McLean County.[1]

Low Income Housing Tax Credit (LIHTC)[2]

The primary source of development funding for creating and maintaining affordable housing is the Low Income Housing Tax Credit (LIHTC)[3], a competitive federal tax credit that subsidizes the acquisition, construction and rehabilitation of affordable housing for low- and moderate-income households. State Housing Finance Agencies award tax credits to developers who, in turn, sell the tax credits to private investors and use the capital to finance their projects. Because the LIHTC provides up-front cash for developers, it reduces the amount of money they need to borrow for their developments. Investors buy the credits because they provide a dollar-for-dollar reduction on their federal taxes, lowering the amount of taxes they owe.[4] The equity raised from the sale of these tax credit reduces the amount of operating revenue needed to keep the development financially feasible, thus allowing for below market rents. The equity raised from the sale of these tax credit reduces the amount of operating revenue needed to keep the development financially feasible, thus allowing for below market rents. LIHTC units can be reserved for different income levels, but are typically restricted to households at 50%–60% of the area median income. Maximum rents are equal to 30% of the target income level. In McLean County, there are 23 properties and a total of 1,721 units that are assisted by LIHTC.[5]

A LIHTC property is monitored for 15 years by the federal government to ensure it is not exceeding maximum rents and maintaining appropriate property standards, and then for an additional 15 years by the State Housing Finance Authority. As properties age, owners can apply for a new round of tax credits to fund the substantial capital investments most likely needed for rehabilitation work at that time. In this scenario, owners are competing against new projects for the same allocation of competitive funding. Owners who do not apply for a new round of credits can still rent their units at LIHTC rent levels, but they also have the option to lease at market rents. Even if the rents remain affordable, the units will no longer be restricted to low- to moderate-income households.

In McLean County, there are 23 properties and a total of 1,721 units that are assisted by LIHTC. In the next 10 years, 625 of those units will reach their 30-year expiration and face a potential loss of affordability or income restriction.

LIHTC Expirations in McLean County in the Next 10 Years

2021	20 units
2024	38 units
2025	272 units
2026	24 units
2027	271 units

Project-Based Section 8 Rental Assistance (PBRA)

Project-Based Section 8 Rental Assistance (PBRA) is a public-private partnership to build and maintain affordable rental units for low-income persons. Housing and Urban Development Authority (HUD) provides private owners of rental housing either a long-term PBRA contract, a subsidized mortgage, or in some cases both, to make units affordable. PBRA makes up the difference between market rents and what low-income tenants can afford based on paying 30 percent of household income for rent. In order to qualify for a unit, a household's income may not exceed 80% of the local area median income, and at least 40% of the assisted units in each development must go to households with "extremely low incomes" (not exceeding 30% of the local area median income or the poverty line, whichever is higher). PBRA properties are required to pass HUD inspections. As these properties age, capital needs can go unmet. If properties do not pass inspections, they fail out of the program and lose their affordability restrictions.

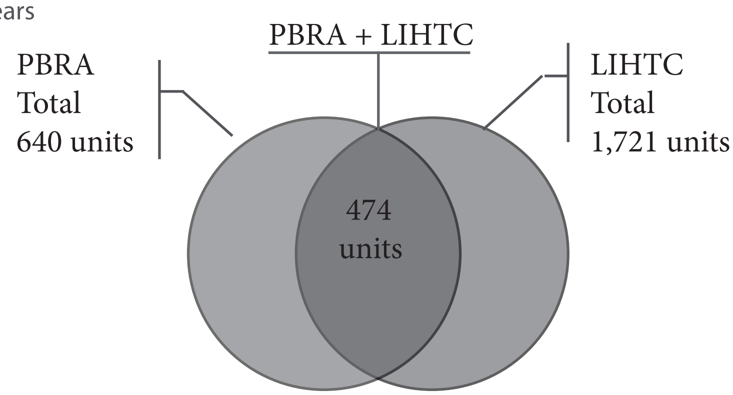
In McLean County, there are 7 properties and 640 units that are assisted by PBRA. Of those 640 units, 474 are also assisted by LIHTC, meaning that 166 units in McLean County are assisted by PBRA only.[6]

Contracts initially last 20–40 years based on the initial mortgage obtained through the Federal Housing Administration (FHA), then can be renewed in 1-, 5-, or 20-year increments. If an owner exits the program upon contract expiration or pays off their mortgage early, tenants are offered a voucher that can be used to rent their existing unit or to rent a unit elsewhere in the community. However, once that contract ends, the subsidy is no longer tied to the property and the owner may set the rent at any price. As with LIHTC properties, even if the rents remain affordable due to market conditions, the units will no longer be restricted to low- to moderate-income households.

In McLean County there are 7 properties and 640 units assisted by PBRA. In the next 10 years, 266 PBRA units in McLean County will reach the end of their current contracts, and face a potential loss of affordability in the form of income-restricted units. Some of these units are also assisted by LIHTC and would maintain LIHTC affordability after the PBRA contract ends.

PBRA Expirations in McLean County in the Next 10 Years

2020	100 units
2021	120 units
2023	46 units



USDA Section 515 Rural Multifamily Housing

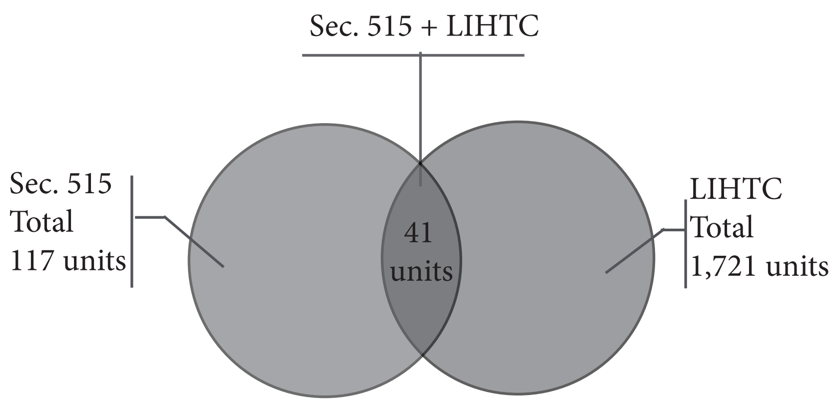
Housing units financed through U.S. Department of Agriculture (USDA) Section 515 loans must be in an eligible rural area and be rented by very-low-income to moderate-income families or individuals, elderly persons aged 62 and over, or people with disabilities. Loans through USDA are up to 30 years, in which time tenants pay no more than 30% of their adjusted income or basic rent, whichever is higher. RD Section 521 Rental Assistance subsidy can be used to limit tenants' payments to 30 percent of their income if they would be paying the basic rent amount. The basic rent amount is set by the owner and must be based on the operating, management and maintenance expenses and other costs related to the project, including loans due to USDA. Basic rents are subject to USDA approval. In McLean County, there are 8 properties and 117 units that are assisted by Section 515. Of those units, however, 41 are also assisted by LIHTC, meaning that 76 units in McLean County are assisted by Section 515 alone.

Affordability contracts for Section 515 properties expire upon loan maturation date. Owners who want to remain in the program must apply for a new round of funding. With federal funding levels for this program trending downward, there are fewer resources to spread between building new units and preserving existing units. If owners aren't able to access new capital when their loan matures, they may choose to exit the program.

In McLean County there are 8 properties and 117 units that are assisted by USDA Section 515. In the next 10 years, 27 of those units will reach their loan maturation date, and face a loss of affordability or income restriction. Some of these units are also assisted by LIHTC and would maintain LIHTC affordability after the Section 515 contract ends.

Section 515 Expirations in McLean County in the Next 10 Years

2029	27 units



Public Housing

Public housing units are owned and managed by the local Public Housing Authority (PHA). Income requirements vary, but most units are targeted to households below 50% AMI. Households pay 30% of their income in rent, and the difference between the tenant payment and the actual rent is then covered by an operating subsidy that HUD provides the Housing Authority. In McLean County, there are 614 public housing units.[7]

While affordability restrictions do not expire, public housing units still face risks. As the oldest form of subsidized housing, maintenance and modernization needs are often a concern. Capital needs were traditionally addressed through annual capital fund grants from HUD, but such funding has been decreasing and is subject to yearly appropriations. A few years ago, HUD created the Rental Assistance Demonstration (RAD) program, which allows housing authorities to convert their units to PBRA and access financing through capital markets and the LIHTC program.

Income-Qualified Housing refers to rental housing units designated for households making less than 80% of the AMI.

Section 8 Housing Choice Vouchers

The federal government (HUD) provides Housing Choice Vouchers to low-income and very-low-income individuals and households to find decent, affordable housing in the private market. Housing Choice Vouchers are administered by the local PHA. A household that receives a voucher selects a suitable housing unit to rent that meets minimum standards of health and safety, as determined by the PHA. In general, a household's income must not exceed 50% of the area median income for the area in which the household chooses to live in order to be eligible for a Housing Choice Voucher. By law, a PHA must provide 75% of its vouchers to households whose incomes do not exceed 30% of the area median income. Through the voucher, the PHA will pay the balance of a rent payment that exceeds 30% of a renter's monthly income, provided that the rental amount is at or below the payment standards (established by the local PHA to be between 90% and 110% of fair market rents published by HUD). In McLean County, there are between 650 and 680 Section 8 Housing Choice Vouchers in use at any given time.[8]

Section 8 Housing Choice Vouchers do not expire, but are tied to a person or household, who can move out of the area and take the voucher with them. Local PHAs manage their allocation of vouchers within the bounds of annual renewal funding provided by HUD through Congressional appropriation.

Summary and Next Steps

Total Unique PBRA units	166
Total LIHTC units	1,721
Total Unique USDA Section 515 Units	76
Section 8 Housing Choice Vouchers	650-680
Public Housing Units	614
Income Qualified Units and Vouchers	3,227–3,257[9]

Income-Qualified Housing needs far exceed housing unit availability

> Only 14%[10] of occupied rental housing units are income-qualified while there are nearly 72% of households that rent qualify for housing units or vouchers restricted to 80% AMI and approximately 53% of them qualify for units restricted to 50% AMI.

In the coming months, the Regional Housing Staff Committee, in consultation with Illinois Housing Development Authority (IHDA), will publish a subsequent paper identifying clear action steps that municipal leaders can take to address the potential loss of unit affordability and/or income restriction in McLean County.

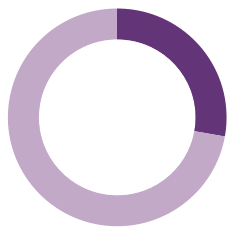
Households in McLean County

66,070
occupied housing units
in McLean County [11]

23,209
renter-occupied housing units in
McLean County

14%
income-qualified units or vouchers of
all occupied rental units

22,440
households that rent
in McLean County [12]



72%
households who rent qualify for
housing units or vouchers restricted
to 80% AMI

53%
households who rent qualify for
housing units or vouchers restricted
to 50% AMI

2019 Area Median Income in McLean County- $88,300

Household Size	Extremely Low Income (30% AMI)	Very Low Income (50% AMI)	Low Income (80% AMI)
One person	$18,550	$30,950	$49,500
Two person	$21,200	$35,350	$56,550
Three person	$23,850	$39,750	$63,600
Four person	$26,500	$44,150	$70,650
Five person	$30,170	$47,700	$76,350

	PROVIDER			AGE	
	Public Sector	Non-Profit	Private Sector	New	Existing
Income					
Income Qualified					
Market Rate					
Typology					
Single Family					
Multi-Family					
Specialized Housing					
Funding					
Federal/State					
Local					
Private					

Affordable housing is a complex subject that cannot be addressed in a single white paper. This white paper is the third in a series of documents produced by the Regional Housing Advisory Committee that dive deeper into the specific aspects of affordable housing and what they mean in the context of McLean County. The first paper discussed what affordable housing is and the key components that affect it; the second paper discussed Area Median Income (AMI) in McLean County.

Each document contains the chart above, highlighting in yellow, the most relevant components of affordable housing being discussed in that document.

1 The statistics in this paper are gathered from third-party government sources and have been verified with Illinois Housing Development Authority (IHDA) and USDA as accurate as of April 2019. Statistics presented are a snapshot in time and are subject to change.

2 Basic information on types of assistance from "The Preservation of Subsidized Housing: What We Know and Need to Know," Lincoln Institute of Land Policy: November 2018. https://www.lincolninst.edu/sites/default/files/pubfiles/reina_wp18vr1.pdf

3 Also referred to as 'Section 42' based on the section of the Internal Revenue Code establishing this program.

4 Novogradac, "About the LIHTC." https://www.novoco.com/resource-centers/affordable-housing-tax-credits/lihtc-basics/about-lihtc

5 HUD LIHTC database and Illinois Housing Development Authority (IHDA) data records

6 HUD Multifamily Housing and Section 8 Database, accessed February 2019

7 Bloomington Housing Authority, February 2019

8 ibid

9 Unique units

10 Based on 23,209 renter-occupied housing units in McLean County; American Community Survey (ACS) 2013–2017 5-Year estimates; Table DP04

11 American Community Survey (ACS) 2013–2017 5-Year estimates; Table DP04

12 HUD 2011–2015 CHAS data for McLean County

The Regional Housing Advisory Committee is led by the McLean County Regional Planning Commission and consists of three interrelated working groups representing various housing stakeholders in McLean County: the Affordable and Supportive Housing Committee, Innovative Housing Solutions Group, and Staff Committee. The Regional Housing Advisory Staff Committee is composed of representatives from the City of Bloomington, Town of Normal, McLean County Behavioral Health Coordinating Council, Bloomington Housing Authority and Providing Access to Help (PATH).

MCRPC REGIONAL HOUSING INITIATIVES

115 E. Washington Street, #M103
Bloomington, Illinois 61701

(309) 828-4331
www.mcplan.org