OTHER TAXES

Land Gain Taxes

Strategy description

A land gain (or speculation) tax is a graduated tax on the profit between the sale and resale of the same house or building. The tax rate depends on the period of time that the land is held, with shorter holding periods and higher profits subject to higher tax rates. The strategy is intended to prevent the rapid "flipping" of real estate for a quick profit and instead to encourage long-term ownership. The tax also is intended to return to the community a significant portion of the short-term gains made by the rapid turnover of real estate. By discouraging speculation, these graduated taxes may reduce the land costs of affordable housing.[90]

History of the strategy

In the 1970s, the state of Vermont adopted a graduated tax on the profits from land sold within six years of purchase in response to concern raised about the effects of rapid increases in land prices, particularly in rural areas. The tax applies to the value of land, not buildings.

Target population

Direct Impact:

- The tax creates a funding stream that can be used to fund low-income housing.

Indirect Impact:

- Discouraging speculation benefits buyers and renters generally by making increases in property prices steadier and more likely to reflect current local economic conditions.

How the strategy is administered

State legislation is required to adopt a land gain tax, which is collected by the state tax department.

How the strategy is funded

No need for funding other than ensuring proper enforcement of the tax.

Extent of use of the strategy

Limited use

Examples of locations where the strategy is being used

- While considered in a number of states (Rhode Island, Hawaii, and Virginia), a land gain tax is currently only used in Vermont.
- A bill was proposed in the Hawaii state Legislature in the spring of 2007 that would add a new tax to the existing capital gains tax on sales of real estate. Homeowners selling their property within 6 months of its purchase would be taxed 60 percent on capital gains; 30

percent on capital gains between 6 and 12 months of ownership; and 15 percent on capital gains between one and two years of ownership. The bill would go into effect in January 2008 if passed.

Strategy results

As of 2005, the tax in Vermont was raising nearly $4 million annually, a significant increase from the $500,000 it had been generating only a few years prior.

Pros and cons to using the strategy

Pros:

- Decreased fluctuation in rents may reduce displacement of renters.
- The housing market will better reflect current incomes of the local population.
- Provides a possible dedicated source of funding for affordable housing.
- May slow inflation of housing prices.

Cons:

- Legislation must be written carefully to avoid unintended consequences for affordable housing developers, owner-occupants, and others.

Sources of information about the strategy

- Text of Vermont Statute Title 32, Chapter 236: Tax on Gains from the Sale or Exchange of Land: http://michie.lexisnexis.com/vermont/lpext.dll?f=templates&fn=main-h.htm&cp=
- *Institute of Community Economics* publication, Harmon, Tasha, "Integrating Social Equity and Smart Growth: An Overview of Tools," 2004. Available at: http://content.knowledgeplex.org/kp2/cache/documents/98054.pdf
- *Star Bulletin* news item about proposed bill in Hawaii state legislature: http://starbulletin.com/2007/03/17/business/story01.html
- Discussion of proposal to implement tax in Rhode Island and descriptions of Vermont's law in the *Rhode Island Policy Reporter*, http://whatcheer.net/ripr/ripr23.pdf and http://whatcheer.net/index.cgi/2005/11/

Contact information

Vermont Department of Taxes
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Montpelier, VT 05633
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Demolition Taxes

Strategy description

A tax is levied upon demolition in order to promote the preservation or creation of affordable housing. The demolition tax only applies to residential demolitions, and is only in effect with the removal of more than 50 percent of an existing structure.

Target population

Demolition taxes are sometimes used to provide revenue to a housing trust fund that creates housing targeted to low- and moderate-income renters and homebuyers. It may also help preserve the diversity of a community's housing stock, benefiting the community generally.

How the strategy is administered

Typically administered by the city's Building Division; payment is required prior to issuance of a demolition permit. Exceptions may be granted to property owners who are replacing their house if they occupy it for a specified length of time (often three years).

How the strategy is funded

No funding is necessary.

Extent of use of the strategy

Limited use.

Examples of locations where the strategy is being used

- The city of Highland Park, IL levies a $10,000 demolition tax on residential property; exceptions include property owners who have resided in the property for five years or who sign covenants agreeing to remain in the property for five years after the new house is built. Revenues are largely dedicated to the city's housing trust fund (see case study).
- Lake Forest, IL enacted a $10,000 demolition tax on residential property in February 2006. Half of the revenue is dedicated to an affordable housing trust fund; the other half is allocated to the city's general fund.
- Evanston, IL also has a $10,000 demolition tax on residential property that has been in effect since 1998. The tax generates about $60,000 per year for the city's affordable housing initiatives.

Strategy results

Highland Park's demolition tax raised about $1 million for the city's affordable housing trust fund over the last four years.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Demolition taxes are effective primarily in strong and gentrifying markets, where modest homes are being torn down and replaced with larger homes. They are less effective in distressed areas, because the tax is a disincentive to revitalization.

Pros:

- Provides a source of revenue for the city and/or a housing trust fund.
- May help maintain a diverse housing stock in a gentrifying area.

Cons:

- Likely to face opposition by property owners.

Sources of information about the strategy

- City of Highland Park Affordable Housing Demolition Tax, June 2006, available at: www.cityhpil.com/pdf/commissions/housing_demoTax.pdf
- "Affordable Housing Toolkit for Communities in the Chicago Region," Business and Professional People for the Public Interest, undated. Available at: www.bpichicago.org/documents/RegionalToolKit.pdf
- Lake Forest Demolition Tax, available at: http://metroplanning.org/homegrown/fin_lf_demotax.pdf
- Evanston Affordable Housing Demolition Tax, available at: http://metroplanning.org/homegrown/fin_ev_demoTax.pdf

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HIGHLAND PARK, ILLINOIS

Highland Park, IL is one of the more expensive and high-income areas in the country, and might seem an unlikely candidate to encourage and implement affordable housing strategies. The median home price for new single family homes is about $1.2 million.

- ✓ Housing trust funds
- ✓ Community land trust
- ✓ Inclusionary zoning
- ✓ Demolition taxes
- ✓ Profit-nonprofit partnerships
- ✓ Creative public-private collaborations

Nevertheless, years of commitment to maintaining a stock of affordable housing have enabled Highland Park to emerge as leader in the affordable housing arena. The city's accomplishments have been achieved through an array of strategies including demolition taxes, employer-assisted housing, green building, a flexible inclusionary zoning ordinance, and the establishment of a housing trust fund and a community land trust.

Highland Park has a long history of promoting affordable housing

Highland Park's focus on creating a diverse community that includes affordable housing dates to the 1870s, when the Highland Park Building Company began constructing homes of varied sizes and affordable rental units near the central business district. The establishment of the city's Housing Commission in 1973, which remains one of the city's strongest affordable housing proponents, sought to further address the need for affordable housing in the community. With input from the Housing Commission, the 1976 and 1997 city master plans both committed to promoting and increasing affordable housing opportunities, in a large part through early inclusionary zoning ordinances.[91]

Despite the city's initial efforts to prioritize affordable housing, an assessment in the late 1990s demonstrated a clear loss in affordable units over the previous two decades as a result of teardowns, the increased cost of new housing, and a depleted supply of developable land.[92] In response, the city initiated a joint task force in 1998, which, through significant community outreach and input from developers and other stakeholders, developed a solution. The four cornerstones of the most recent Affordable Housing Plan include:

- Revised inclusionary zoning ordinances;
- Establishing a housing trust fund to be funded in part by a demolition tax;
- Creation of the Highland Park Community Land Trust; and
- An employer assisted housing component.

Flexibility is key to the success of Highland Park's inclusionary zoning ordinance

The city's inclusionary zoning ordinance is both flexible and caters to the needs of developers to the extent possible. Michael Blue, director of community development for the City of Highland Park, emphasizes that flexibility has been the ordinance's greatest asset, as no two developers ever approach a project in the same way. "If [inclusionary zoning] is always black and white, it makes it much more difficult for a plan to work," he said.

> ***"If [inclusionary zoning] is always black and white, it makes it much more difficult for a plan to work."***
>
> -Michael Blue

Regulated developments with five or more units are required to set aside 20 percent of units as affordable, and the ordinance applies to new construction projects, renovations of multi-family developments that increase the number of dwelling units, and changes in the use of property from non-residential to residential or condo conversion.[93] Developers are rewarded for such developments with a one for one density bonus. An additional density bonus is offered for planned unit development (PUD), of up to 0.5 market rate units for each affordable unit to a maximum of 1.5 bonus units.

The flexibility of the ordinance comes in the construction of the affordable and market-rate units. The market rate and affordable units need not be identical, but they must be visually indistinguishable, contain the same number of bedrooms, possess gross floor areas within 75 percent of each other, and meet the same energy efficiency standards.[94]

Developers are also offered alternatives to on-site construction of affordable units. Developers of single-family projects with fewer than 20 units can make an in-lieu development cash payment of $100,000 per affordable unit by right; developers of projects with more than 20 units may appeal to the City Council for approval of an in-lieu payment, may dedicate land to the Housing Commission, or may provide off-site units. The in-lieu revenue is dedicated to the city's Housing Trust Fund, although only one developer so far has elected the in-lieu option, having opted to build two affordable units and pay the fee for the third required unit.

Incentives offered by the city to help offset the cost of the affordable units include a $10,000 impact fee waiver for these units as well as demolition permit fee and demolition tax waivers.

One of the largest developments the city has seen in a long time is currently underway, consisting of 42 units, including 30 townhomes and 12 condos. The 20 percent inclusionary requirement will generate seven affordable units, including five condos and two townhomes. The relatively high share of condos that are affordable relative to townhomes is one way the city provided the developer some flexibility in satisfying the requirement.

Housing trust fund provides key financing element

The city's housing trust fund (HTF), established in 2002, has also been a key element in providing affordable housing opportunities. The Fund's primary funding sources come from a $10,000 per teardown demolition tax, a $550 demolition permit fee, and other city sources such as a recent $1 million refinance of a local senior housing property. According to Blue, Highland Park averages about 50 teardowns per year, which have generated over $1 million over last four years in demolition tax revenue for the HTF.

Since its inception, the HTF has spent between $1.8 and $2 million for affordable housing purposes, the majority ($1.3 million) going to the community land trust (described below) to help it purchase land for the eventual development of affordable homes. An additional $50,000 has been set aside as matching funds for the city's still developing employer-assisted housing program.

CLT's multi-functional role is crucial to Highland Park's affordable housing success

Highland Park's community land trust was also established in 2001 to provide a long-term solution to the city's affordable housing needs. The CLT's initial role was to assist in the management of the newly implemented inclusionary zoning ordinance, including finding buyers for affordable inclusionary units.

Its primary functions now include providing technical capacity to builders, nonprofits, and other key affordable housing stakeholders; developing inventories of homes to remain affordable over the long term; and maximizing public investment. The CLT purchases and rehabilitates properties to sell as affordable units. It also uses grants to write down the price of properties on which it maintains deed restrictions. The maximum household income for buyers of CLT-financed properties is 115 percent of the area median income (AMI), although former CLT executive director Mary Ellen Tamasy notes that this can vary from project to project, and that the average is closer to 100 percent AMI. For rental properties, qualified renters have incomes closer to 80 percent of AMI. While anyone can apply who meets income qualifications, the CLT gives priority to those who live or work in Highland Park.

Laurel Court is a new 15-unit development that includes two affordable units.

The CLT's operational funding comes primarily from the HTF; however, it also receives direct donations and foundation grants. Funding for specific projects comes from a much greater variety of sources, including the HTF, bank loans, the Lake

County affordable housing fund, the Illinois Development Authority, the state donation tax credit, and the Federal Home Loan Bank.

To date, the CLT has created 13 affordable units, including six townhomes, five single- family detached homes, and two condos.

Partnerships are essential to the CLT's success

Some of the units created by the CLT were the result of a partnership between the CLT and a for-profit builder who initially acquired a foreclosed site. The CLT pieced together the financing for the Temple Unit Townhomes project, which included grants from the city and the county, money from the community development block grant, and a number of other sources. Appraised at $292,000 per unit, the CLT was able to subsidize $132,000 of the price and sell each unit for $160,000.

The CLT's current focus is a 14-unit townhome/apartment development at 500 Hyacinth Place, which includes both rental and for sale properties, all of which will be affordable.

The Hyacinth project also highlights the key role that partnerships play in the community's ability to generate affordable housing. The property was originally acquired by the HTF and donated to the CLT. Since then, the CLT has been working on the project with Brinshore Development, a local for-profit development company, and a nonprofit, the Housing Opportunity Development Corporation. Brinshore Development is guaranteeing loans and providing technical expertise; the Housing Opportunity Development Corporation is applying for public funding sources and managing the property

Highland Park's agenda for the road ahead

Highland Park's employer-assisted housing (EAH) component is still very much a work in progress, but the city is hopeful that it will both further expand affordable housing opportunities and build a stronger local workforce that is more connected to the community. The plan was devised from research done by the Housing Commission subcommittee on existing local and national EAH models. When the program is launched, eligible EAH activities will include downpayment and closing cost assistance, reduced interest mortgages, rental subsidies, and security deposit assistance.

Although green building is not directly tied to affordable housing in Highland Park, it is nevertheless a significant piece of their overall approach and has the potential to play an increasingly important role in improving long term affordability for Highland Park residents. The Hyacinth project currently underway will be powered in part by a wind turbine and geothermal heating, among other green features.

Lessons learned: "There is no silver bullet"

According to Blue, one of the most important lessons he and the rest of the community have learned through this process is the importance of customizing any affordable housing approach to meet the needs of the community. "There is no silver bullet," says Blue.

> ***"There is no silver bullet."***
>
> -Michael Blue

One crucial component in devising a housing plan is obtaining input from the people affected by it. Before approving the Affordable Housing Plan, the Highland Park Commission conducted outreach to developers and other key community members. Their input was incorporated into all of the plan's strategic components. Blue says maintaining flexibility in the plan is also important, and it must be adapted to the inevitable changes the community will face over time.

The success of Highland Park's Affordable Housing Plan has received substantial recognition, having won various National APA and state awards. Locally, its adoption is being considered in a number of neighboring communities, paving the way for potential subregional implementation. "We are evangelizing this plan all over the country," Blue said.

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STATE TAX CREDITS

Tax Credits for Donations to Affordable Rental Housing Projects

Strategy description

State charitable tax credits provide tax credits to charitable donors (individuals or corporations) that donate money to affordable rental housing projects that are developed by non-profit developers. The donor receives an approved, one-time credit and the donation provides equity for the project. While there is some variation in the specific tax credit percentage allocated between different state programs, a tax credit valued at 50 percent of the contribution is most commonly used. In some states the program is limited to properties that also receive LIHTC allocations.

Target population

The direct beneficiaries are the non-profit developers of affordable housing projects that receive the donations. The ultimate beneficiaries are low-income renters who have access to the additional affordable units developed through the program. In some cases the target population is households with incomes below 80 percent of area median, and in others the target is households with incomes below 60 percent of area median.

How the strategy is administered

The state tax credits typically are administered by the state housing finance agencies. Donors apply for credits, which are capped at different levels in each state (ranging from abut $1 million to $13 million per year per state).

How the strategy is funded

The strategy is a state tax credit, which means that the state forgoes revenue in order to promote affordable housing.

Extent of use of the strategy

The strategy is being used by a number of states.

Examples of locations where the strategy is being used

- Illinois' Affordable Housing Tax Credit allows individuals or organizations to give donations to non-profit housing developers. The tax credit is worth 50 cents per dollar donated.
- Missouri's Affordable Housing Assistance Program provides about $11 million in tax credits annually. Of this, $10 million is allocated for Production credits for donations to construction, rehabilitation, and rental assistance activities. The remaining $1 million is for donations that help fund the operating costs of the non-profit organization.

- Maryland's Community Investment Tax Credit Program allows businesses to support a wide range of community projects including affordable housing. Businesses donating to qualified nonprofits receive state tax credits equal to 50 percent of the value of their contributions. The state authorizes $1 million in tax credits annually for the program.

Strategy results

Missouri's Charitable Tax Credit funded about 1,250 affordable housing units in 2002.

Pros and cons to using the strategy

Pros:

- Brings in private contributions for affordable housing.
- Can be combined with existing housing programs to reduce the debt and, therefore, the rent levels needed to support the project (federal LIHTC, or state-financed programs).
- Flexible in terms of the types of contributions that can be made (can be cash or in-kind contributions such as land).
- Donations also generally qualify for federal income tax deductions, providing an additional incentive to donors.

Cons:

- The state forgoes some tax revenues.

Sources of information about the strategy

- Listoken, David, and Kristen Crossney, "Best Practices for Effecting the Rehabilitation of Affordable Housing," Volume 1 Part 3: Resource Guide and Literature Guide, September 2006, available at: www.huduser.org/publications/affhsg/bestpractices.html.
- Illinois Housing Development Authority website, www.ihda.org/oldsite/iahtc.htm
- "Community Investment Tax Credit Program: Directory of Projects," Maryland Department of Housing and Community Development, 2007. Available at: http://www.neighborhoodrevitalization.org/Programs/CITC/Documents/CITC%20Mar2007DirectoryFinal.pdf
- "Missouri Affordable Housing Assistance Program," Missouri Housing Development Commission website, http://www.mhdc.com/rental_production/ahap/

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State Tax Credits for Investments in Affordable Rental Housing

Strategy description

Tax-based incentives from local and state governments include tax credits for state tax liability to developers of affordable rental housing. The developer sells the credits, usually through a syndicator, to an investor who gains an ownership stake in the project. The sales value of the credits provides equity for the project. State tax credits are sometimes used with federal Low Income Housing Tax Credits.

History of the strategy

Most state tax credits for affordable housing are modeled after the federal Low Income Housing Tax Credit, which was created by the Tax Reform Act of 1986.

Target population

Investment tax credits are generally targeted to rental housing for households with incomes below 80 percent of the area median income. In some states, part or all of the credits are reserved for housing affordable to households with incomes below 60 percent or 50 percent.

How the strategy is administered

Administration is often identical to administration for the federal Low Income Housing Tax Credit program. In general, developers apply to a state agency for an allocation of the available tax credits for that year. Successful applicants must obtain the additional financing needed, meet milestones for placing the units into service, and comply with rules governing maximum rents that may be charged for the units and the income levels of the families and individuals who move into the units.

How the strategy is funded

Tax credits represent foregone revenue for the state and as such either constraint other spending or must be made up with higher fees or taxes from other sources.

Extent of use of the strategy

Moderate use: at least eight states have a housing investment tax credit.

Examples of locations where the strategy is being used95

- Under California's Investment Tax Credit, projects approved for the federal Low Income Housing Tax Credit are also allocated state tax credits. In 2005, California had $70 million in state tax credits available, more than the $67 million in federal tax credits available that year.

- Massachusetts' Low Income Housing Tax Credit program has provides about $20 million in tax credits each year since 2001. State credits generally reduce the amount of federal Low Income Housing Tax Credits awarded to a project.
- Tennessee has a community investment tax credit for the promotion of affordable housing opportunities and small business lending.
- Other states include Hawaii, New Jersey, Oregon, Utah, and Missouri

Strategy results

- Massachusetts' credits have been used to create more than 1,800 housing units since 2000, more than 1,100 of which are affordable.
- Missouri's State Low Income Housing Tax Credits funded 1,256 units in 2002, at a cost to the state of about $78,000 per unit.[96]

Pros and cons to using the strategy

Pros:

- An indirect method of funding affordable housing investment can be more politically palatable than making direct expenditures.

Cons:

- State tax credits are not an entirely efficient mechanism for funding affordable housing because of their impact on the recipients' federal taxes. Because state taxes reduce federally taxed income, reducing state tax liability increases federal tax liability, typically by 35 percent for corporations. As a result, $1 in foregone state revenue results in less than $1 (and no more than about $.65) in affordable housing investment.
- The ability to transfer credits by selling equity to investors other than the housing developer increases their flexibility and value. However, state tax credits that can be sold sell for significantly less than federal tax credits, probably because the market is thinner and credits must be sold to another taxpayer in the same state.
- The process of obtaining tax credits typically is lengthy and bureaucratic. .
- The fixed expenses of obtaining and selling the tax credits can be high, precluding small projects from using them.

Sources of information about the strategy

- Listoken, David, and Kristen Crossney, "Best Practices for Effecting the Rehabilitation of Affordable Housing," Volume 1 Part 3: Resource Guide and Literature Guide, September 2006, available at: www.huduser.org/publications/affhsg/bestpractices.html
- Tennessee Housing Development Agency, Community Investment Tax Credit website: www.thda.org/Programs/commpro/citc/citccvr.html
- The Massachusetts Low Income Housing Tax Credit Program regulations, www.mass.gov/dhcd/components/housdev/want/dvlper_r/StateCredit.pdf

- Oregon Affordable Housing Tax Credit Program: Program Factsheet, available at: www.oregon.gov/OHCS/HD/HRS/pdfs/HRS_Factsheet_Oregon_Affordable_Housing_Tax_Credit_Program.pdf

Contact information

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State Historic Tax Credits

Strategy description

Historic tax credits are provided to developers who rehabilitate historic buildings, complying with standards of historic preservation. Historic tax credits are not necessarily linked with affordable housing, but some states reserve a portion of historic tax credits for projects containing affordable housing. In addition, state historic tax credits are also sometimes used in combination with the federal Low Income Housing Tax Credit program. Even in states where tax credits are not explicitly linked to affordable housing, historic tax credits are often an important source of subsidy for rehabilitating affordable housing.

History of the strategy

State historic tax credit programs generally are modeled after federal Historic Preservation Tax Incentives, which were enacted in 1976. States began implementing similar programs in the early 1990s.

Target population

State tax credits for historic preservation generally are targeted to historically significant buildings and sometimes are limited to targeted areas.

How the strategy is administered

A state agency, such as the Massachusetts Historical Commission, administers selection criteria for projects applying for tax credits, allocating the credits available annually among qualifying projects that provide the most public benefit. Projects must be certified and overseen to ensure that tax credits are used for qualified rehabilitation expenditures.

How the strategy is funded

Tax credits represent foregone revenue for the state and as such either constrain other spending or must be made up with higher fees or taxes from other sources.

Extent of use of the strategy

State historic tax credits are widely used; those directly linked with affordable housing are in limited use.

Examples of locations where the strategy is being used

- About 25 states have a state historic tax credit. In general, states that award tax credits to income-producing properties (such as multifamily rental property) are more likely to improve the affordability of housing than those that are intended primarily for owners of private residences.

- In Massachusetts, at least 25 percent of tax credits must be awarded to projects that contain affordable housing.
- The Rhode Island Historic Preservation Investment Tax Credit Program provides a credit for 30 percent of the "qualified rehabilitation expenses," and can be combined with the federal Historic Rehabilitation Tax Credit, which covers 20 percent of expenses.

Strategy results

Although the tax credit is not directly linked to affordable housing, a study of the economic impacts of Rhode Island's Historic Tax Credit found that, of 1,699 residential units created in the 111 projects analyzed, 409 are designated as affordable to people of modest means. The state cost of the tax credit is about $1.3 million per project.[97]

Pros and cons to using the strategy

Pros:

- State historic tax credits can often be used with other tax credits, such as the federal Low Income Housing Tax Credit and the federal Historic Tax Credit. The combination of subsidies may allow units created to be affordable to low-income households at lower rents than would have been possible with only one source of subsidy.

Cons:

- Most state historic tax credits are used for purposes other than affordable housing.

Sources of information about the strategy

- Listoken, David, and Kristen Crossney, "Best Practices for Effecting the Rehabilitation of Affordable Housing," Volume 1 Part 3: Resource Guide and Literature Guide, September 2006, available at: www.huduser.org/publications/affhsg/bestpractices.html
- "Study Quantifies Substantial Return on Historic Tax Credit," Grow Smart Rhode Island website: www.growsmartri.com/taxcredit-general.html
- Massachusetts regulations for the State Historic Tax Credit, available at; www.sec.state.ma.us/mhc/mhcpdf/830%20CMR%2063.pdf

Contact information

Massachusetts Historical Commission
220 Morrissey Boulevard
Boston, MA 02125-3314
617-727-8470
www.sec.state.ma.us/mhc/mhcidx.htm

Tax-Linked Bonuses

Strategy description

Tax-linked bonuses are one-time grants from a state to a non-profit affordable housing developer seeking gap funding for a specific project. As the project has no tax liability, the bonus provides the project with a grant to be used for equity. Funding is direct from the state to the project, but the bonus is implemented through the state income tax system.

History of the strategy

See below.

Target population

This strategy is ultimately targeted at those seeking affordable rental housing, particularly in the lower income neighborhoods, as a higher bonus is given to developments in those communities. The direct beneficiaries of the strategy are the developers whose projects receive the bonuses from the state.

How the strategy is administered

This strategy is administered through the State Housing Agency in exactly the same way as the LIHTC, and is calculated using the same financial process. The State Department of Revenue gives a check to the project, which may be used as a grant or is transferred to the State Housing Finance Agency to be administered as a loan.

How the strategy is funded

This strategy is funded through federal and state funds.

Extent of use of the strategy

Very limited use

Examples of locations where the strategy is being used

- This strategy is currently only being used in North Carolina, where it is only applicable to projects that are LIHTC-sponsored. The State provides eligible projects with a bonus check that can be claimed directly by the project or transferred to the NC Housing Finance Agency, which then lends it to the project. The value of the credit is 10, 20, or 30% of the developer's eligible base, which includes the sum of all depreciable construction costs. The percentage given depends on whether the location of the project is in a High, Moderate, or Low Income county.
- Minnesota has done research on this strategy and has considered its implementation.

Strategy results

In 2003, the first year of the strategy's implementation in North Carolina, the state funded 2,441 units, totaling $35,451,241. The average expenditure per unit was $14,500 in 2003. Overall, this strategy provides the majority of state affordable housing funding.

Pros and cons to using the strategy

Pros:

- Very easily administered and legally simple because it does not involve outside investors.
- Highly efficient, in that every $1 of public money spent under the program is used for affordable housing.
- Projects are held to strict levels of financial feasibility, project design, developer capacity, and monitoring.

Cons:

- Legal costs do exist, although they are minimal.
- Use is currently restricted to LIHTC-eligible projects.

Sources of information about the strategy

- A publication of the Minnesota State Housing Partnership and Housing Minnesota. "Affordable Housing State Tax Credit: Models for Minnesota." August, 2004. Available at: www.huduser.org/Publications/pdf/BarriersVol1_part3.pdf
- North Carolina Housing Finance Agency homepage: www.nchfa.com
- A publication of Housing Minnesota. "Affordable Housing State Tax Credit: Models for Minnesota – Executive Summary." June, 2004. Available at: www.mhponline.org/files/TaxCreditExecutiveSummary804.pdf

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