

**2014 Entry Form**  
(Complete one for each entry.)

Fill out the entry name *exactly* as you want it listed in the program.

**Entry Name** \_\_\_\_\_

**HFA** \_\_\_\_\_

**Submission Contact** \_\_\_\_\_

**Phone** \_\_\_\_\_ **Email** \_\_\_\_\_

Qualified Entries must be received by **Tuesday, July 1, 2014**.

For more information about Qualified Entries, [click here to access the 2014 Entry Rules](#).

Use this header on the upper right corner of each page.

HFA \_\_\_\_\_

Entry Name \_\_\_\_\_

Communications	Homeownership	Rental Housing	Special Needs Housing
<input type="checkbox"/> Annual Report <input type="checkbox"/> Promotional Materials and Newsletters <input type="checkbox"/> Creative Media	<input type="checkbox"/> Empowering New Buyers <input type="checkbox"/> Home Improvement and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Multifamily Management <input type="checkbox"/> Preservation and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Combating Homelessness <input type="checkbox"/> Housing for Persons with Special Needs
Legislative Advocacy	Management Innovation	Special Achievement	Are you providing visual aids?
<input type="checkbox"/> State Advocacy <input type="checkbox"/> Federal Advocacy	<input type="checkbox"/> Financial <input type="checkbox"/> Human Resources <input type="checkbox"/> Operations <input type="checkbox"/> Technology	<input type="checkbox"/> Special Achievement	<input type="checkbox"/> YES <input type="checkbox"/> NO

## **Overview**

The Tennessee Housing Development Agency (THDA) had concerns about the growing number of local Assessors of Property choosing to impose excessive tax burdens on properties developed through the Low Income Housing Tax Credit (Tax Credit) program. In January 2014, the THDA Board of Directors took the unprecedented step of supporting specific legislation to prohibit a local Assessor of Property from taxing the value of the Tax Credit.

## **Background**

A 2001 Tennessee Court of Appeals ruling (*Spring Hill decision*) granted local Assessors of Property the authority to include the value of Tax Credits in a property's appraised value. The *Spring Hill* decision did not mandate or require the use of this more punitive method, simply permitted the practice. According to THDA's developer partners between 12 and 24 Assessors across the state were utilizing some variation of the Spring Hill method to assign appraised value to Tax Credit developments. Since 2006 a number of bills had been filed to address this issue. The complexity of the issue and lack of consensus among affected parties kept the legislation from even getting a fair hearing in committee.

## **Problem/Concerns**

Using the Spring Hill method to appraise Tax Credit developments created several problems, including:

- Diminishing the value and impact of the only federal incentive available to encourage private sector developers to build and maintain affordable rental housing. The excessive property tax burden forced THDA to allocate additional Tax Credits to each development in order to make the project feasible, resulting in fewer affordable units being produced or preserved.
- Financial Sustainability – When property taxes increase, the owners of market-rate/unsubsidized developments pass the additional expense along to tenants. This option is not available to the owner of a Tax Credit development because of restrictions on the amount of rent that can be charged. Having to use 4-5 months of annual operating income to pay local property taxes creates deferred maintenance issues and puts the development in jeopardy of becoming a problem property.
- Counterproductive – taxing the value of Tax Credits used to build affordable rental housing is comparable to a local Assessor of Property deciding to tax the value of economic development incentives provided by the state to companies that are relocating or expanding their business in Tennessee.

## **Strategy**

THDA formulated a comprehensive strategy for the campaign and coordinated its implementation. The strategy included:

- Endorsement by the THDA Board of Directors – represents unprecedented action by the Board of Directors; the resolution was approved unanimously
- Securing Support from Mayors – To minimize opposition from local officials, THDA staff solicited support from the mayors of the state's larger cities and counties in advance of the legislative session. In all, THDA secured verbal and/or written support from over a dozen local mayors across the state
- Building the Coalition – THDA secured support from the TN Association of Housing and Redevelopment Authorities (TAHRA) and the TN Apartment Association during the campaign's initial stages. By mid-March a number of other statewide industry groups joined the campaign, including the REALTORS®, Homebuilders, and Bankers organizations.

## Tennessee Housing Development Agency Fair Taxation for LIHTC Developments

- Targeted Legislative Outreach – THDA’s advocacy efforts targeting members of leadership and members of the committees where the legislation was expected to be heard first.
- Awareness – THDA’s Public Affairs division created a PowerPoint presentation to help educate legislators. The presentation included pictures of LIHTC developments in the districts of all targeted committee members. In addition, PA staff coordinated the submittal of multiple Letters to the Editor in large and small newspapers across the state

### **What Happened**

The legislation was overwhelming approved in the State & Local Government committees of both chambers but lost momentum after reaching the Finance, Ways and Means committees. Facing an estimated \$250 million shortfall in Franchise & Excise Tax collections, legislators also didn’t have the appetite to reduce local revenue any further than what was already expected.

### **What Now**

The bill was ultimately referred for summer study by the Tennessee Advisory Committee on Intergovernmental Relations (TACIR). TACIR members are expected to review a draft report in December 2013. Final approval is scheduled for January 2014, immediately before the start of the legislation session.

THDA is also attempting to address the issue through its Qualified Allocation Plan (QAP) by rewarding developments in counties offering preferential tax treatment. The 2015 QAP draft includes points for developments proposed in counties where Payment In Lieu of Taxes (PILOT) or similar programs are in effect or where PILOTs or similar incentives have been conditionally approved for a proposed development, subject to the award of LIHTCs. THDA solicited input on this proposal from all County Mayors and members of the Tennessee General Assembly, in addition to the Mayors of the state’s larger municipalities. The THDA Board of Directors is expected to approve the final 2015 QAP during its meeting on Tuesday, July 29.

*See abbreviated slide show deck.*

# **Low-Income Housing Tax Credits**

**We ask your support of  
House Bill #1390  
Senate Bill #1671**



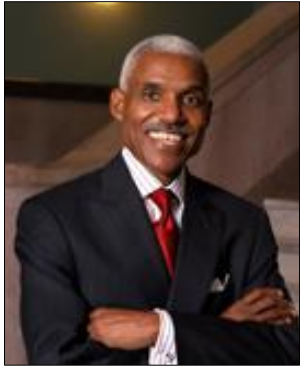
# Intent of the Bill

- The intent is to prohibit property assessors from counting the value of LIHTC in property assessments
- Assessors currently have the option to count the value of LIHTC
- This results in punishing tax increases for properties that have no ability to pass them on to tenants

# Consequences of *Not Passing* 1390

- Applying market rate to LIHTC properties causes certain cash flow issues that in time will undermine the property's condition
- This results in troubled assets for cities and hurts property values in the surrounding neighborhoods

# That's Why Mayors Support It



A.C. Wharton  
Mayor of Memphis



Kim McMillan  
Mayor of Clarksville



Jerry Gist  
Mayor of Jackson



Tommy Bragg  
Mayor of Murfreesboro



Tim Burchett  
Knox County Mayor



Ernest Burgess  
Rutherford County Mayor



Madeline Rogero  
Mayor of Knoxville



Tom Beehan  
Mayor of Oak Ridge



Steve Godsey  
Sullivan County Mayor



Dan Eldridge  
Washington County Mayor

# THDA's Perspective

- 18 of 23 awards in 2013 would be underwater if their assessment includes LIHTC
- More credit per development is needed
- Results in fewer quality, affordable rental developments



# Tax Impact on LIHTC Properties

Compare other tax credit properties in Chattanooga to recent LIHTC property Alton Place

Property	Units	Annual Taxes	Taxes/Unit	# Months Rent to Pay Taxes
Dogwood Place	140	\$137,165	\$806	1.3 Months
Cummings Place	92	\$112,849	\$1,029	1.8 Months
<i>Alton Place</i>	<i>88</i>	<i>\$209,755</i>	<i>\$2,384</i>	<i>4.4 Months</i>



# Tax Impact on LIHTC Properties

Compare LIHTC property Alton Place to similar market rate properties in Chattanooga

Property	Units	Annual Taxes	Taxes/Unit	# Months Rent to Pay Taxes
Ridgemont	226	\$171,784	\$760	1 Month
Windridge	174	\$231,741	\$1,332	1.1 Months
<i>Alton Place</i>	<i>88</i>	<i>\$209,755</i>	<i>\$2,384</i>	<i>4.4 Months</i>





Before and After  
Maple Hills Apartments  
Chattanooga, TN

# Who Lives Here?

Working households of modest means



People we need in our communities

# Summary

- Counting the value of tax credits treats affordable housing as if it is market rate, even though rents cannot support it.
- Creates strong disincentive for future affordable development.
- Imposes real cash flow problems on properties that over time create problem properties.

**We ask your support of**

**House Bill #1390**

**Senate Bill #1671**

