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EXCERPT

# THE LIHTC Property Compliance ISSUE

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## HISTORIC TAX CREDIT TOOL BOX

# HTCs and LIHTCs in Rural America



CINDY HAMILTON, HERITAGE CONSULTING GROUP

Across the country, high demand for affordable housing remains a constant in large cities, small towns and rural areas. As inflation, interest rate hikes and other economic issues impose challenges, the need for affordable housing is perhaps greater than ever before. In many communities, private developers and public housing authorities (PHAs) use financial incentives, primarily low-income housing tax credits (LIHTCs), to increase their unit totals and update their existing housing stock. For PHAs, however, using LIHTCs can be difficult due to the competitive scoring system, which can often favor private, new construction.

For many PHAs in small and rural communities, receiving government subsidies to update their existing housing stock can be a significant challenge. Recent initiatives within the affordable housing industry, however, have been established to provide

further aid. Chief among these is the U.S. Department of Housing and Urban Development's (HUD's) Rental Assistance Demonstration (RAD) program, which essentially converts public housing to the Section 8 platform. Through RAD, private developers are able to partner with PHAs and open doors to various funding sources. Among these sources is access to historic tax credits (HTCs).

*Image: Courtesy of Heritage Consulting Group*  
Taft Housing's 72 apartment units were recently rehabilitated using HTCs and LIHTCs.

Throughout the country, many developers have begun to understand how the 20% federal HTC can serve as a significant funding source that can be paired with both either the 4% or 9% LIHTC. In states that have a state HTC, those too can factor into the capital stack. With this in mind, numerous rehabilitations of public housing low-rise complexes and high-rise towers have been undertaken through the use of HTCs since the mid-2010s. As a significant portion of public housing is now over 50 years old, many of these complexes and buildings are eligible to use HTCs.

For one developer, however, the goal is to provide high-quality affordable housing to people in small and rural communities. Housing Solutions Alliance LLC was established in 1996 by current president Arthur J. Schuldt, Jr., and Daniel G. Strange. The company offers a one-stop shop for PHAs, including accounting, consulting and development services. Throughout the South, the company has developed a niche market in rehabilitating public housing complexes through the use of both HTCs and LIHTCs.

### **Housing Solutions Alliance, LLC**

Since the inception of the RAD program, Housing Solutions Alliance has routinely sought to twin the two financial incentives whenever possible. Schuldt explained the company's role in the process, noting, "As a development partner to public housing authorities, we are often faced with several challenges in the redevelopment effort. These key factors include how to compete competitively for LIHTC, a decision to preserve, and to secure much-needed gap financing."

Since LIHTC awards are competitive, HTCs play an integral role in ensuring the projects that Housing Solutions work on can secure the LIHTCs. For instance, Housing Solutions has completed numerous projects using both the 4 and 9% LIHTCs. The 4% credit, Schuldt explained, is typically easier to secure but comes with considerable financing gaps. With HTCs in the capital stack, however, smaller housing authorities are able to secure gap financing for the 4% LIHTC, which favors acquisition and rehabilitation.

Similarly, in some states the 9% LIHTC process awards points for historic preservation. Schuldt explained that, "In the states we develop within, gaining approvals from the National Park Service on HTC applications can be the difference in a successful 9% application." One such example of this lies in the High Rise Apartments project in Great Bend, Kansas. The federal and state HTC equity on the project exceeded \$5 million, enabling the team to close the gap in financing and making up 33% of total funding sources. According to Schuldt, without the use of HTCs, "the Great Bend project would not have succeeded."

### **Taft Housing, Taft, Texas**

With projects across the South, Housing Solutions has worked with a number of housing authorities in a variety of settings, including cities, like Lake Charles, Louisiana, and small, rural communities, like Groesbeck, Texas. The smaller communities, however, play an integral role in the company's business model. Schuldt explained their methodology, noting "A lot of larger cities do not have the capital issues that smaller communities do." He continued, "we are able to work with these smaller communities to provide much-needed financial stability and to significantly impact their housing stock."

In the small community of Taft, Texas, north of Corpus Christi along the state's Gulf Coast, Housing Solutions completed its most recent example of a twinned HTC-LIHTC deal. Following listing in the National Register of Historic Places in 2018, rehabilitation of the 72 apartment units strewn across two portions commenced.

The Taft Housing complex project combined the 20% federal HTC and 25% state HTC with the 9% LIHTC. Upon completion, finishes throughout the apartment units were updated and historic elements of the buildings, namely the decorative metal screens at the porches, were refurbished. The updated units provide a significant upgrade to the housing stock of a very small community of just over 3,000 people. "On top of that, the end result was a complete

financial repositioning of the Taft Housing Authority,” Schuldt noted.

**Conclusion**

In small and rural communities across the country, public housing developments historically played an integral role in offsetting deteriorated, or in many cases, nonexistent affordable housing. To many, these units continue to foster proud communities. In working with the PHAs in locations like Taft, Housing Solutions is providing a significant boost to communities that need it most. In twinning LIHTCs and HTCs, their efforts ensure that an important segment of the history of the United States is told, all while upgrading units with modern finishes and amenities.

The HTC significantly contributes to smaller PHAs’ ability to use LIHTCs.

“Investor funds for the purchase of HTCs are significant,” Schuldt said. “In a 9% application, these funds are transformational for a housing authority, providing financial security not seen previously. In a 4% transaction, the funds provide the gap needed for success.” As Schuldt and Housing Solutions continue to twin these two incentives, the company will continue to provide a positive impact on the communities they work with. ❖

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 Cindy Hamilton is president of Heritage Consulting Group.

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## CONTACT

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**Teresa Garcia**  
**teresa.garcia@novoco.com**  
**925.949.4232**

ADVERTISING INQUIRIES

**Christianna Cohen**  
**christianna.cohen@novoco.com**  
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