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HISTORIC TAX CREDIT TOOL BOX

Lessons Learned at the Edison School Apartments: How Developers Can Capitalize on Both the Low-Income Housing Tax Credit and the Historic Tax Credit

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For alumni of the former North Milwaukee High School in Milwaukee, much of their alma mater's building looks the same today: the grand foyer, greeting students with colorful tile floors and a broad multilight transom; the wide corridors, lined with lockers and proud trophy cases; the classrooms, with their wood floors and built-in cabinets to display books or beakers.

But high school seniors have made way for adult seniors, as the former secondary school has been adaptively reused as the Edison School Apartments, part of a community for adults 55 and older. In order to achieve this vision, developer Gorman & Company had to assemble a complex capital stack that combined historic tax credits (HTCs) with low-income housing tax credits (LIHTCs). With complicating factors related to timing, approvals, financing and competing program requirements, this was a math problem more complicated than any taught in school.

Pencils Down

The building now known as the Edison School Apartments was primarily built between 1924 and 1929. As class sizes grew too large in the mid-20th century, a classroom addition was tacked on in 1956. Designed by a prominent local architecture firm (Van Ryn and De Gelleke), the building was unusual

Image: Courtesy of Gorman & Company
The former North Milwaukee High School in Milwaukee has been adaptively reused as Edison School Apartments.

in Wisconsin in that it was purpose-built to serve exclusively high school students; at the time, only 24 of the state's 219 public schools were devoted to secondary education, without any population of younger primary students. The former North Milwaukee High School was notable in architectural terms as well: a classic example of a Progressive Era school building, it incorporated specialized spaces (such as domestic science and manual training rooms) that enriched the educational experience beyond mere classroom lectures.

Over the course of the 20th century, the school's population ebbed and flowed. When the addition was built in 1956, the student body shifted younger and the building became known as Thomas A. Edison Junior High School (hence, the "Edison School" Apartments name used today). The school eventually closed in 2008, and the city put the vacant building up for sale.

Penciling Out the Project

Gorman & Company took on the rehabilitation of the former school, hoping to convert the building into much-needed affordable housing. But, as the real estate market faced uncertainty in recent years due to rising interest rates and construction cost overruns, with developers needing to piece together multiple funding sources in order to make projects feasible. Gorman and Company's Milwaukee school project relied on a combination of state and federal HTCs and state and federal LIHTCs for the $28 million undertaking; without these programs, the math simply would not work. These financing options are critical for a complex undertaking like the North Milwaukee

High School project, but each of these tax credit programs also introduces its own requirements and limitations, which run the risk of competing with each other.

Timing and Coordination

First and foremost, the combination of HTCs and LIHTCs requires intensive planning and coordination, as the two incentives are administered by different agencies. The HTC program is administered at the federal level by the Internal Revenue Service and National Park Service and at the state level by state historic preservation offices; the LIHTC program, meanwhile, is administered by state housing agencies according to general guidelines established by the Internal Revenue Service. Each credit has its own application process and schedule: for the HTC, the multipart application can take anywhere from 90 days to nine months (or even longer, for particularly complex projects) to secure a Part 2 application approval, at which point construction proceeds. Although the program operates with rolling deadlines, developers must factor in the necessary review windows at each stage of the application process. For some states with their own state HTCs, there may be additional rules, timelines and requirements separate from the federal HTC process.

Meanwhile, for the LIHTC incentive, each state establishes its own criteria, application procedures and scoring rubrics. For this credit, there typically *are* calendar deadlines (often, on an annual basis) and caps. Developers may need to reapply several times before their project is funded.

Even as these baseline applications are underway for each program, the development team must contend with more mundane aspects of the entitlement process, seeking zoning and planning approvals, historic commission signoffs (where applicable), and other requisite clearances–all of which create a period of uncertainty in the early stages of redevelopment.

Scoping and Approvals

While the LIHTC incentive emphasizes the creation of affordable housing units, HTCs are primarily focused on preserving the character of a historic building. Each credit, therefore, invokes some form of oversight for the physical design and scope of a rehabilitation project, with objectives that may compete for approval.

The HTC program in particular requires the retention and rehabilitation of features that define the character of a historic place. In a former mill building, for example, such character-defining features might include the open floor plan where industrial processes once hummed; in a former church, the sanctuary would likely need to remain intact as a large-volume, legible space. For rehabilitations making use of LIHTCs as well, these restrictions could impact the number of units and therefore the financial feasibility of the project, since they likely do not allow for the subdivision of larger spaces into additional units.

In the case of the North Milwaukee High School/ Edison School Apartments, HTC approvers made note of the common areas (including the wide corridors and stairwells), the assembly spaces and the historic finishes, such as the wood floors and tile foyers. Gorman & Company made sure to preserve all of these features and incorporate them into the rehabilitation scope. But at times, the preservation of these significant features required creative solutions to achieve accessibility standards and housing unit quantities compatible with the LIHTC requirements on the other side of the ledger.

Combining the two credits often requires sophisticated financing arrangements, with multiple sources of equity and debt and increasing transaction complexity. The types of work allowed for each credit may overlap, but not all eligible expenses for one credit may qualify for the other. For the Edison School Apartment, the scope included typical rehabilitation work such as masonry cleaning and pointing, window replacement, and sensitive mechanical installation; with an experienced team, Gorman & Company was able to reconcile these costs to satisfy the expectations of both the HTC and the LIHTC administrators.

Long-Term Compliance

Even after the ribbons are cut and the certificates of occupancy are signed, developers must navigate ongoing compliance requirements for both the HTC and the LIHTC programs. For LIHTC, program restrictions establish long-term affordability requirements of 15-50 or more years; the HTCs, meanwhile, typically require that all significant features be retained for the full duration of a five-year recapture period. Thus, developers and property managers must understand and comply with the long-term implications of financing, even after the physical rehabilitation is complete. Any missteps could result in the loss of credits—which could jeopardize the overall financial viability of the undertaking—or mandated remedial work to reverse inappropriate alterations.

Lessons from the Edison School Apartments

Despite all the potential complications of stacking HTCs and LIHTCs, the process can be financially prudent and rewarding–many times over. Indeed, Ted Matkom, Gorman & Company's Wisconsin market president, celebrates the opportunities that the combined credits offer.

"They fit wonderfully together," he said. "Both LIHTC and HTC have their own process, but typically, they are compatible."

In the case of the Edison School Apartments, the capital stack made it possible to create 63 affordable one- and two-bedroom apartments for seniors who are at least 55 and make up to 30% and 60% of the area median income, according to Matkom.

Going forward, the Historic Tax Credit Coalition hopes to generate new legislation to support facilitating better the combined use of the two credits. This diverse group of industry stakeholders works with Congress to improve and expand the use of the HTC; its current advocacy work seeks to eliminate the requirement that the value of the HTC must be deducted from a building's basis, a change that would increase the value of the HTC to a LIHTC development and make it easier to pair with the federal LIHTC. Such a change would be "amazing," Matkom says, eliminating some of the current complications and risks involved in redevelopments like the Edison School Apartments. "We hope that the coalition is successful," Matkom said. "They would bring more tax credit equity for all projects that involve LIHTCs and HTCs."

Conclusion

The Edison School Apartments reopened for residential use in fall 2024, with all the appropriate pomp and circumstance. The adaptive reuse development is proof of the value of using LIHTC and HTC in a capital stack, even if there is a steep learning curve associated with their combined use. With the right tax expertise, however, developers can structure their financing and maximize the value of both incentives. When successfully combined, these tax credits can create opportunities to preserve historic buildings and create much-needed affordable housing in local communities.

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