INCOME-QUALIFIED HOUSING IN MCLEAN COUNTY

ISSUE 2: TYPES OF UNITS AND VOUCHERS

PAPER #2A

UPDATED DECEMBER 2022

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, 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 rental housing for low- and moderate-income households. State Housing Finance Agencies such as the Illinois Housing Development Authority (IHDA),[4] 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.[5] The equity raised from the sale of these tax credits 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 AMI. Maximum rents are equal to 30% of the target income level. **In McLean County, there are 20 properties and a total of 1,416 units that are assisted by LIHTC.**[6]

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 Agency. 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. **Between 2021 and 2022, one LIHTC property with a total 20 income-restricted units became inactive in McLean County. However, in the Spring of 2022, IHDA's board approved 3 new LIHTC developments with a total of 132 income-restricted units. These potential developments have yet to be put into service and are not counted towards the total number of LIHTC units in the County for 2022.**

LIHTC Expirations in McLean County in the Next 10 Years

2024	38 units
2025	60 units
2026	24 units
2027	104 units
2030	184 units
2032	26 units

In McLean County, there are 20 properties and a total of 1,416 units that are assisted by LIHTC. In the next 10 years, 436 of those units will reach their 30-year expiration and face a potential loss of affordability or income-restriction.

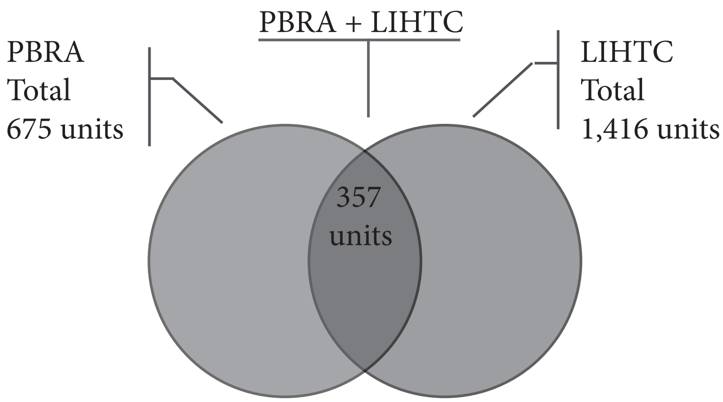
Project-Based Section 8 Rental Assistance (PBRA)

Project-Based Section 8 Rental Assistance (PBRA) is a public-private partnership to build and maintain affordable rental units for low-income persons. The U. S. Department of Housing and Urban Development (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 AMI, 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 AMI 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 eight properties with 675 units that are assisted by PBRA. Of those 675 units, 357 are also assisted by LIHTC, meaning that 318 units in McLean County are assisted by PBRA only.**[7]

Contracts with HUD 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.

PBRA Expirations in McLean County in the Next 10 Years

2023	46 units
2032	158 units



In McLean County, there are 8 properties and 675 units assisted by PBRA. In the next 10 years, 204 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.

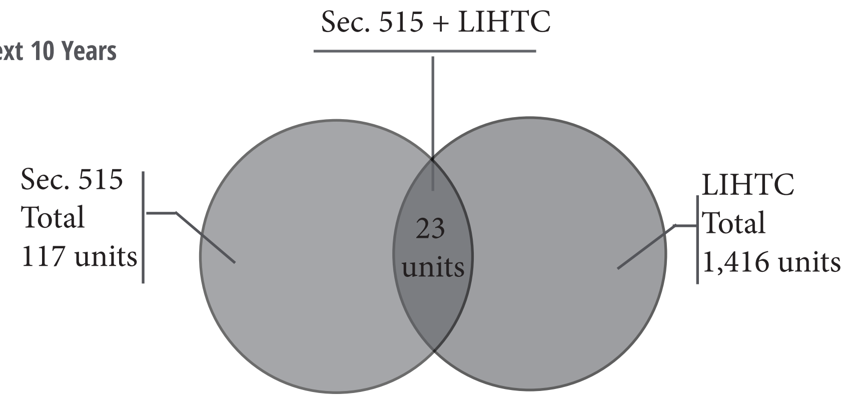
USDA Section 515 Rural Multifamily Housing

Section 515 loans are administered through the U.S. Department of Agriculture's office of Rural Development (RD). These loans finance housing units that are located in an eligible rural area and are rented by very-low-income to moderate-income families or individuals, elderly persons aged 62 and over, or people with disabilities. Loans through USDA last up to 30 years, in which time owners must either charge basic rent or charge no more than 30% of a tenant's adjusted income, whichever is higher. The RD Section 521 Rental Assistance subsidy can be used to limit tenant's 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.[8] **In McLean County, there are 8 properties with 117 units that are assisted by Section 515. Of those units, 23 are also assisted by LIHTC, meaning that 94 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.

Section 515 Expirations in McLean County in the Next 10 Years

2029	27 units



In McLean County there are 8 properties with 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.

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 PHA. **In McLean County, there are 607 public housing units.**[9]

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.

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 AMI 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 AMI. 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). The number of Housing Choice Vouchers fluctuates from month to month. **In McLean County, an average of 640 Housing Choice Vouchers are in use at any given time.**[10]

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 LIHTC units	1,416
Total Unique PBRA units	318
Total Unique USDA Section 515 Units	94
Public Housing Units	607
Section 8 Housing Choice Vouchers	640
Income Qualified Units and Vouchers	3,075[11]

Income-Qualified Housing needs far exceed housing unit availability

Only 13% of occupied rental housing units are income-qualified, while 76% of households that rent qualify for housing units or vouchers restricted to 80% AMI and approximately 55% of them qualify for units restricted to 50% AMI.[12]

Households in McLean County

65,845

Occupied housing units in McLean County[12]

23,295

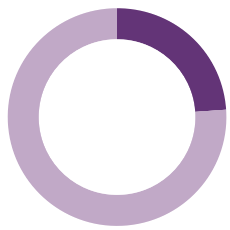
Renter-occupied housing units in McLean County[12]

13%

Income-qualified units or vouchers of all occupied rental units

23,295

Households that rent in McLean County[12]



76%

Households who rent qualify for housing units or vouchers restricted to 80% AMI[12]

55%

Households who rent qualify for housing units or vouchers restricted to 50% AMI[12]

2022 Area Median Income in McLean County- $108,500[13]

Household Size	Extremely Low Income (30% AMI)	Very Low Income (50% AMI)	Low Income (80% AMI)
One person	$21,900	$36,500	$58,350
Two person	$25,000	$41,700	$66,700
Three person	$28,150	$46,900	$75,050
Four person	$31,250	$52,100	$83,350
Five person	$33,750	$56,300	$90,050

Income-Qualified Housing receives some level of financial assistance to maintain affordability for households making less than 80% of the AMI.

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 Initiative that dive deeper into the specific aspects of affordable housing and what they mean in the context of McLean County. The first paper discusses what affordable housing is and the key components that affect it; the second paper discusses Area Median Income (AMI) in McLean County.

Each document contains the chart below, marking the most relevant components of affordable housing being discussed in that document.

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

1 The statistics in this paper are gathered from third-party government sources and have been verified with the Illinois Housing Development Authority (IHDA) as accurate as of September 2022. Statistics presented are a snapshot in time and are subject to change.

2 Basic information on types of assistance is 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 The Illinois Housing Development Authority (IHDA) was created by the state legislature in 1967 and finances the creation and preservation of affordable housing in Illinois. For more information about the agency visit ihda.org

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

6 National Housing Preservation Database and Illinois Housing Development Authority (IHDA) data records.

7 HUD Multifamily Housing and Section 8 Database, curent as of August 2022.

8 USDA Rural Development. Multifamily Housing Direct Loans. https://www.rd.usda.gov/files/3560-2chapter07.pdf

9 Bloomington Housing Authority, August 2022.

10 ibid.

11 Unique units.

12 HUD (PD&R) Consolidated Planning/CHAS 2015-2019 Data for McLean County.

13 HUD FY 2022 Income Limits Documentation System.

The Regional Housing Initiative is led by McLean County Regional Planning Commission staff and consists of two interrelated working groups representing various housing stakeholders in McLean County: the Regional Housing Staff Committee and the Affordable and Supportive Housing Committee. The Regional Housing 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
McLean County
Regional Planning Commission

REGIONAL HOUSING INITIATIVE

McLean County Regional Planning Commission
115 E. Washington Street, #M103
Bloomington, Illinois 61701
(309) 828-4331
www.mcplan.org