

# PRESERVATION OF LIHTC AND OTHER INCOME-QUALIFIED HOUSING IN MCLEAN COUNTY

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## Introduction

The purpose of this paper is to convey the role of the Low-Income Housing Tax Credit (LIHTC) in affordable housing initiatives and provide options to decision-making stakeholders to preserve LIHTC units as restrictions expire. Approximately 90% of affordable housing development in the United States are LIHTC units.<sup>1</sup> Investors purchase these tax credits, which are used to decrease housing construction costs. In return, the property owner must commit to at least 30 years of rental affordability. The state's housing agency is responsible for administering and monitoring the program. LIHTC units vary per property owner on the income restrictions for tenant's eligibility, but most LIHTC units are reserved for individuals who earned 60% or less of the Area Median Income (AMI) for rent. In Illinois, the "greatest need for rental housing is for households earning less than \$20,000 annually, where 25% of households fall into this income level," as the Illinois Housing Development Authority (IHDA) indicates in the Illinois [2022 Housing Blueprint](#).<sup>2</sup> The Housing Blueprint is the State of Illinois' official statewide plan to meet the state's ongoing housing needs.

Local leaders and stakeholders must collaborate to preserve affordability after these restrictions expire. This requires rehabilitating current LIHTC units to improve housing conditions and incentivizing LIHTC property owners to retain affordable units. LIHTC property owners currently have state and federal-based incentives to keep units affordable and maintained, including operating subsidies for affordable housing developments, reducing the cost of maintaining and preserving their units and the rental income that comes with less tenant turnover. Property owners who choose to exit the LIHTC program may (1) keep their prices comparable, (2) decide to apply for additional financing with affordability restrictions, (3) raise their rent to market rates, or (4) neglect and allow units to deteriorate over time.

Although the affordable housing crisis started well before 2020, the COVID-19 pandemic significantly exacerbated the housing shortage. According to a 2022 Statewide Resident Survey, 58.5% of Illinois "respondents indicated that COVID-19 pandemic made housing costs unaffordable," up from 40.9% from 2021. Inflation rose to historic highs, peaking at 9.1% nationally in June 2022, which discouraged housing developers from starting construction. "High housing prices and lower supply disproportionately affect households of color and people with low and moderate incomes, by among other things, limiting their access." As inflation continues to stay at historic highs, the need for affordable housing becomes more pressing. Also, affordable housing policies and funding remain fundamental in ending homelessness, according to the [United Nations](#).<sup>3</sup>

Local governments that can help preserve and maintain affordable housing by utilizing several strategies such as initiating or networking with a pre-existing Social Impact Fund(s) or creating new property tax abatements. It is imperative that local leaders and stakeholders preserve and maintain LIHTC units to sustain housing for McLean County's most marginalized residents and to understand the options to preserve the community's affordable housing as a whole.



## McLean County Context

The McLean County Regional Planning Commission (MCRPC) maintains a database of income-qualified housing units in McLean County which is updated annually with data from the Illinois Housing Development Authority (IHDA), U.S. Department of Housing and Urban Development (HUD), and U.S. Department of Agriculture (USDA). According to the database, there are 21 active LIHTC properties with 1,416 income-qualified units in McLean County as of 2022.



Despite LIHTC incentives, the ongoing housing supply shortage has impeded economic growth in McLean County. High housing costs have made homeownership less attainable for low to moderate earners, and made relocation to employment centers more challenging with low housing supply. 43.70% of renters are paying more than 30% of their income on rent. In the Bloomington Metro Service Area (MSA), a resident would need to work 47 hours per week earning the minimum wage of \$13/hour to afford a modest one-bedroom [market-rate rental](#); 58 hours for a two-bedroom. Housing rehabilitation is another issue; according to [IHDA](#) and 2019 ACS estimates, 63.6% of Illinois' rental housing stock was built prior to 1979, and in the Bloomington region it is 57.7%. Thus, landlords in McLean County may be less inclined to renew their LIHTC contract, since it may be more profitable to charge market rate than the tax credit that LIHTC renewal offers.<sup>4</sup>

IHDA indicated in the [2022 Housing Blueprint](#) that Champaign and Bloomington have the greatest need for adequate rental housing for households earning less than \$20,000 annually, with a surplus/deficit ratio of 19.4% and 17.1% respectively. LIHTC units in McLean County decreased from 1,721 in 2019 to 1,416 in 2022. LIHTC units are reserved for households earning 50-60% or less of the Area Median Income. The following table illustrates AMI household income limits in the Bloomington-Normal Metro Area as of May 2023, which HUD calculates annually.<sup>5</sup>

| <b>Household Size</b> | <b>Extremely Low Income<br/>(30% AMI)</b> | <b>Very Low Income<br/>(50% AMI)</b> | <b>Low Income<br/>(80% AMI)</b> |
|-----------------------|---|--------------------------------------|---------------------------------|
| One person            | \$23,200                                  | \$38,650                             | \$61,800                        |
| Two person            | \$26,500                                  | \$44,150                             | \$70,600                        |
| Three person          | \$29,800                                  | \$49,650                             | \$79,450                        |
| Four person           | \$33,100                                  | \$55,150                             | \$88,250                        |
| Five person           | \$35,750                                  | \$59,600                             | \$95,350                        |

In April 2023, MCRPC staff interviewed the owners and managers of five LIHTC properties in McLean County with tax credits expiring within the next 4 years. The purpose of the interviews was to gather data and analyze the inventory of the affordable housing inventory in the County, and help housing leaders and decision-makers to understand the local market conditions.

In terms of future plans for the properties, all five property managers/owners stated that they would exit the LIHTC program when their contract expires. Two owners/managers responded that they will maintain income restrictions for the foreseeable future, in which they will accept Housing Choice Vouchers (HCV) as housing subsidies. The remaining three property managers/owners stated that they would convert the units to market-rate as soon as their LIHTC contract expires. In total, 96 units are expected to transition from affordable to market-rate between May 2024 and July 2026, whereas only 24 units will retain their affordability through the HCV program.

All five LIHTC property owners/managers reported that the LIHTC program lacked incentives to renew the tax credit contract with the State of Illinois, after the end of the compliance period. Notably, the two properties that will maintain affordability through the HCV program alone are both located in rural communities outside of Bloomington-Normal: Gridley and Lexington. These sites receive subsidies through USDA Rural Development funding. Two of the three properties that will convert LIHTC units to market rate are in Normal, which is located in a tighter, competitive rental housing market. The three property owners/managers that are converting their LIHTC units to market-rate stated that the administrative requirements to adhere to LIHTC regulations were burdensome and costly, such as compliance inspections. The most frequently cited reason for converting LIHTC units to market-rate was profitability due to increased demand for rental housing.

LIHTC property owners/managers acknowledged the increase in profit margins made possible by the competitive rental housing market and rising costs. In past interviews, LIHTC property owners/managers also admitted that it would be helpful to have a local funding source for larger rehabilitation projects to reduce the need to solely rely on LIHTC funding. Another observation that was made about the LIHTC market in general was that not-for-profits are increasingly becoming involved as partners and owners in LIHTC properties as they can access capital at lower rates.

## Strategies for Preserving LIHTC units

**Implement Code Enforcement**- This strategy requires state and local enforcement and fines on non-compliant LIHTC properties, such as unsafe or unaffordable standards for tenants. The advantages of using code enforcement include increasing funds for affordable housing initiatives on the state or local level, holding LIHTC landlords accountable for violating code restrictions and ensuring units are safe and livable. However, this requires more capacity on the corresponding Housing Authority or municipality to enforce, direct feedback from tenants and housing inspections.

Examples:

- [Rockford, Illinois](#) implemented a proactive code enforcement program
- [Chicago](#) launched a pilot program in 2018 to enforce health and safety compliance
- [California](#) imposes Compliance Violation Fines
- [Greensboro](#), North Carolina
- [Newark](#), New Jersey

**Access Government Capital** – Governmental bodies can provide current LIHTC owners grants or low-interest loans to connect the latter with access additional capital and capacity. Government subsidies can lower the cost of debt services for affordable housing and promote economic stability for property owners and housing stability for tenants. These subsidies require policy-making and government funding to develop and maintain.

Examples:

- [Chicago](#) Housing Authority Multi-Family Affordability through Upfront Investment
- [Minnesota](#) Housing Finance Agency
- [Philadelphia](#) Housing Trust Fund
- [Santa Cruz](#) Affordable Housing Trust Fund

**Initiate County Property Tax Abatement Incentives** – Local governments can create property tax abatements for LIHTC property owners. Property tax abatements incentivize property owners to maintain and rehabilitate LIHTC units. This is considered an additional tax incentive separate from LIHTC altogether. Although this may benefit the tenants in the form of lower rent costs, studies suggest that investors, developers and financial companies gain the most financially, making this option less equitable than other options.

Examples:

- [Cook County](#)- Class S Tax Incentive lowers total assessed value
- [Illinois](#) House Bill 2621
- [Tacoma](#) has a multi-family property tax exemption

**Create Social Impact Funds**- This strategy requires local government and housing authorities to collaborate with private companies to create a dedicated social impact fund to finance affordable housing preservation and maintain expiring LIHTC units. This can be a more cost-effective way to finance as it requires less debt for the developer(s). However, this strategy does require ongoing philanthropic donations and commitment for long-term financial sustainability.

Examples:

- [Illinois](#) Affordable Housing Trust Fund
- [Saint Louis](#) Equity Fund
- [National Equity Fund](#) – Parkwood Commons in Peoria, IL
- [Saint Paul, Minnesota](#) Rehab FHLB Program



**Network with Affordable Housing Developers & Non-Profit Organizations-** Affordable Housing Developers and Non-Profit Organizations establish networks to preserve affordable housing. If LIHTC property owners in McLean County choose to not renew their LIHTC status and prefer to sell the property, then municipal governments could network with affordable housing developers to seek an acquisition of such properties. Acquisition can be less appealing to any developer if the units have substantial deterioration. Non-profit organizations possess the social mission to maintain affordable housing and hence promoting housing stability for the community.

Examples:

- [Mercy Housing Lakefront](#) – Headquartered in Chicago with properties throughout Illinois, including Danville, IL
- [Common Bond Communities](#)
- [Preservation of Affordable Housing](#)

**Incentivize Longer LIHTC Affordability-** This option requires advocating for state legislation to prioritize LIHTC applications with longer affordability periods in IHDA's Qualified Action Plan (QAP). This would decrease the number of expiring LIHTC units over time and increase the affordability periods for LIHTC units across the state. This option requires advocacy at the state level where the annual QAP is created and regulated through the Illinois Housing Development Authority (IHDA).

Examples:

- [Illinois](#) Housing Development Authority's QAP
- [Evanston, Illinois](#) offers density bonuses to developers to extend affordability periods
- [State of Virginia](#)
- [State of Texas](#)

**Generate Operating Subsidies for Affordable Housing-** Landlords with expiring LIHTC units can chose to transition to IHDA's Housing Choice Voucher Program (HCV), which provides subsidies on behalf of the tenant(s). This option is useful for cities with high rates of chronic homelessness and/or special needs and utilizes the pre-existing program that IHDA offers. However, smaller jurisdictions with "soft" non-competitive housing markets may have unpredictable or limited resources available on an ongoing basis. Housing Choice Vouchers are also issued by HUD and fluctuate in the funding amounts and can be competitive to attain.

Examples:

- [Illinois](#) Housing Development Authority's HCV Program
- [Dubuque, Iowa](#) Illinois Housing Development Authority's HCV Program
- [Lawrence, Kansas](#)
- [Coeur d'Alene, Idaho](#)

**Promote Right of First Refusal-** This strategy refers to a real estate legal clause that provides a designated party or individual(s) the right to be the first to make an offer on a real estate purchase. IHDA offers extra points for developments with nonprofit partners in which the nonprofit partner has the first of right refusal upon sale of the property. Right of first refusal can stymie predatory stakeholders from purchasing the property and charging high rent costs, but it can lead to a decrease in property values as that property becomes less marketable. Right of first refusal has led to frequent source of litigation and limits the ability to negotiate with multiple buyers if that property is listed for sale.

Examples:

- [Oak Park, Illinois](#) acquired an apartment building with units at risk of market-rate conversion
- [Urbana, Illinois](#)
- [State of Texas](#) Right of First Refusal
- [City of Somerville, Massachusetts](#) passed a home rule petition in 2019



## Keys to Success & Recommendations

**Collaboration**- Public and private partnerships are critical to LIHTC preservation and rehabilitation. Governmental entities or non-profit organizations may consider networking with private companies and/or other non-profit organizations to advance efforts for affordable housing. Which non-profit organizations outside of McLean County could provide access to affordable housing capital? Which private companies could provide philanthropic funding to preserve LIHTC housing?

**Resource Coordination** – Local and County governments could consider utilizing state and federal subsidies for expiring LIHTC units; LIHTC properties within the city of Bloomington and town of Normal could be prioritized to preserve access for Smart Growth. Which IHDA grants should local governments promote to preserve LIHTC affordability?

**Inclusionary Zoning & Zoning Reform**- Local municipalities can reduce barriers to the housing shortage by modifying existing zoning laws to accommodate for more flexible land use. Which local governments have the political momentum and resources to rezone for expanding affordable housing in McLean County?

## Conclusion

As McLean County grapples with a population and housing demand boom, it is crucial that local governments address the ongoing affordable housing crisis with swift, innovative and resilient strategies. Since LIHTC is and has been the main provider of affordable housing in the U.S., governmental entities must consider these options to renew and revitalize expiring LIHTC units. Promoting affordable housing is a sustainable solution to enhancing housing stability for marginalized residents, including the homeless. Community leaders may consider multiple options as provided in this white paper, rather than relying on one choice alone.

Affordable housing is a complex subject that cannot be addressed in a single white paper. This white paper is the fourth in a series produced by the Regional Housing Advisory Committee that dive deeper into the specific aspects of affordable housing in McLean County. The first paper discussed what affordable housing is and the key components that affect it; the second paper discussed Area Median Income (AMI) in McLean County; and the third discussed the types and quantity of income-qualified housing in McLean County.

McLean County Regional Planning Commission is the lead for the Regional Housing Initiative and consists of two interrelated working groups representing various housing stakeholders in McLean County: The Affordable and Supportive Housing Committee and the Housing Staff Committee. The former includes community partners such as PATH who provide housing social services, and the latter includes local government staff members from Bloomington, Normal and McLean County.

1. National Equity Fund, LIHTC Overview; IHDA, <https://www.ihda.org/developers/tax-credits/low-income-tax-credit/#:~:text=LIHTC%20accounts%20for%20the%20majority,affordable%20housing%20tool%20in%20Illinois>.
2. Illinois Housing Development Authority, 2022 Housing Blueprint. [https://ilhousingblueprint.org/wp-content/uploads/2022/11/Housing-Blueprint-2022\\_Final.pdf](https://ilhousingblueprint.org/wp-content/uploads/2022/11/Housing-Blueprint-2022_Final.pdf)
3. Illinois Housing Development Authority, 2022 Housing Blueprint. [https://ilhousingblueprint.org/wp-content/uploads/2022/11/Housing-Blueprint-2022\\_Final.pdf](https://ilhousingblueprint.org/wp-content/uploads/2022/11/Housing-Blueprint-2022_Final.pdf); National Low Income Housing Coalition, "Illinois," <https://nlihc.org/oor/state/il>; United Nations, "Affordable Housing," February 10, 2020.
5. Illinois Housing Development Authority, 2022 Housing Blueprint. [https://ilhousingblueprint.org/wp-content/uploads/2022/11/Housing-Blueprint-2022\\_Final.pdf](https://ilhousingblueprint.org/wp-content/uploads/2022/11/Housing-Blueprint-2022_Final.pdf); National Low Income Housing Coalition, "Illinois," <https://nlihc.org/oor/state/il>



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