
INFORMAL STAFF REPORT TO MAYOR AND CITY COUNCIL

SUBJECT:

Non-Competitive 4% Low Income Housing Tax Credit Financing

BACKGROUND:**Housing Tax Credits**

The Housing Tax Credit program is the largest public funding source in the nation for affordable rental homes. Housing Tax Credits are funded federally and administered by states. In Texas, the program is administered by the Texas Department of Housing and Community Affairs (TDHCA).

There are two types of Housing Tax Credits (HTC):

4% HTC	<ul style="list-style-type: none">• Non-Competitive• Applications accepted year-round• Allows the developer to reduce federal tax burden by a proportion of eligible construction costs, 30% of the development costs.• Requires resolution of no objection from municipality• Must be at least 50% funded by Multifamily Housing Revenue Bonds
9% HTC	<ul style="list-style-type: none">• Competitive• Application occurs once per year• Allows the developer to reduce federal tax burden by a proportion of the eligible construction costs, 70% of the development costs.• Requires resolution of support from municipality

Multifamily Housing Revenue Bonds

Because a 4% Housing Tax Credit only covers approximately 30% of a development's equity, developments must seek other sources of funding. Per Internal Revenue Code¹, 4% Housing Tax Credit developments are required to finance at least 50% of the cost of land and construction using Multifamily Housing Revenue Bonds. The State has a set amount of tax-exempt Private Activity Bonds which can be issued in Texas each year, including Multifamily Housing Revenue Bonds. The Texas Bond Review Board administers the Private Activity Bond program and issues Certificates of Reservation to 4% Housing Tax Credit developments, stating that one of the state's tax-exempt Private Activity Bonds may go to that development.

Afterwards, the development must find an approved government entity to issue the bond on a conduit basis. Then the bond is purchased by a private investor to fund the cost of development. These bonds do not create a debt or liability to the State of Texas or taxpayers of the jurisdiction.

¹ Section 42(h)(4)(B)

Developers have options for conduit bond issuers, including Texas Department of Community Affairs (TDHCA), but they may also partner with a conduit issuer local to the development. Denton Housing Authority (DHA) is authorized to issue Multifamily Housing Revenue Bonds.

Under the Internal Revenue Code², bond issuers are required to receive approval from the elected body that governs them. The City of Denton's City Council is the elected body that governs DHA.

DISCUSSION:

There are two potential development projects in Denton seeking a 4% Housing Tax Credits award in 2025 and an accompanying Multifamily Housing Revenue Bond. Both project developers have partnered with DHA as the conduit issuer, who will need the bond issuance approved by the City of Denton. If approved, **no debt obligation will be created for the City of Denton**. If not approved, the developers would have to seek Multifamily Housing Revenue Bonds elsewhere and the projects may be at risk.

Roselawn Village

Roselawn Village Apartments is a 4% Housing Tax Credit Development proposed for 2800 Roselawn Dr. On <https://denton.tx.us>, City Council approved a Resolution of No Objection for the developer's application to TDHCA for the tax credit (<https://de>).

Waterford at Spencer Oaks

The Waterford at Spencer Oaks Apartments is an existing apartment complex at 2100 Spencer Rd, Denton, TX 76205. Its' construction was funded by Housing Tax Credits in 1996. Their affordability commitments last 30 years, and would otherwise expire next year in 2026, with the apartments converting to market rate. By undergoing a rehabilitation with Housing Tax Credit funding, the development would recommit to affordability for another 30 years. A Resolution of No Objection to their application for the 4% Housing Tax Credit award will be brought to City Council on the July 22 agenda for Public Hearing.

Bond Issuance

Both projects have selected DHA as the conduit issuer for their required Multifamily Housing Revenue Bonds. DHA will hold the public hearings at 1225 Wilson St., Denton, Texas 76205 on July 10 at 10 a.m. (Roselawn Village) and 11 a.m. (Waterford at Spencer Oaks). Approval for a DHA bond issuance has not been considered by the City Council since Sep. 20, 2022. The City's process has been to place this item on the consent agenda. Staff will place the approval of these bonds for both developments on the Aug. 5 Consent Agenda. Staff will bring proposed amendments to the HTC process later this year that include approving bond issuance for projects concurrently with approving the Resolution of No Objection when possible.

² Section 147(f), established by the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA),

Timeline

- **Feb. 18:** Roselawn Village received a Resolution of No Objection
- **July 10:** DHA will hold public hearings regarding Multifamily Housing Revenue Bond conduit issuance for both Roselawn Village and Waterford at Spencer Oaks
- **July 22:** City Council will consider a Resolution of No Objection for Waterford at Spencer Oaks
- **Aug. 5:** City Council will consider approval of DHA's Multifamily Housing Revenue Bond conduit issuance for both developments.

STAFF CONTACT:

Jesse Kent, Director of Community Services

REQUESTOR:

Staff initiated

STAFF TIME TO COMPLETE REPORT:

1 hour

PARTICIPATING DEPARTMENTS:

Community Services