Center on Budget and Policy Priorities

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Using the Renters' Credit for Project-Based Assistance in LIHTC Properties

Under the proposed renters' credit, states would have the option to use their credit authority for tenant-based credits, credits allocated through banks that lend to rental owners, or project-based credits either in combination with the Low-Income Housing Tax Credit (LIHTC) or separately. Renters' credits could be project-based in a portion of a LIHTC development's units using the following process, to facilitate use of both types of credits by the same investor:

1. Families in renters' credit (RC) units pay rents equal to 30 percent of their actual prior-year income (using gross income under the Section 8 definition, as LIHTC does).
2. The state LIHTC agency publishes an RC NOFA with a portion reserved for use to leverage 4% and/or 9% LIHTC allocations. The owner applies to the state and obtains a 15-year RC allocation based on the gap between conservatively estimated payments from RC families and the higher of the LIHTC rent or 85% of the Small Area FMR. The state has some discretion to adjust the RC credit amount to ensure that the net financial benefit to the owner exceeds the cost of the rent reduction, any additional reserves required to deal with the variability in operating income, and the additional administrative costs.
3. The owner sells the RCs and LIHTCs to the same investor. In exchange for the RCs (and the accompanying tax benefits from reduced taxable rental income), the investor makes an added up-front contribution to lower debt or capitalize reserves.
4. If average family income and rent payments turn out to be *higher* in a particular year than estimated, the investor would still receive the same credit and its contribution would be unchanged. But the full contribution would not be needed to make up the gap between family payments and the LIHTC rent. Instead, the excess from the contribution would be held in a reserve that would be used in years when family incomes are lower than expected. If the reserve is not used during the credit period, it would be held over and used to help maintain deep affordability after the end of the credit period.
5. If average family income and rent payments are *lower* in a particular year than expected, the investor would still receive the same credit. If reserves are available from earlier years when incomes were higher than expected (or if reserves were capitalized at the start of the credit period) they would be used to make up the shortfall. If sufficient reserves are not available, the owner would be permitted to rent some RC units on turnover to non-RC families at full LIHTC rents in order to increase rent revenues. If average family incomes later rise, the owner would be required to shift units back to RC families, again on turnover. (If Congress gave states the option to use a portion of their renters' credit authority for grants instead of credits, states could be required to provide supplementary grant funds when rents come in below expectations, avoiding the need to allow RC-designated units to be rented to non-RC families.)

As an alternative to a single, up-front investor payment, owners and investors could agree to a series of predetermined annual payments (which would avoid requiring the development to hold large reserves for extended periods in cases where the investor payment goes mainly toward on-going operating expenses). As with up-front payments, these annual payments would remain unchanged even if tenant incomes turn out to be lower or higher than expected.