

# PROPOSED SOLUTIONS

## Housing Bill Overview

### 1. Establish new Iowa Housing Tax Credit Program to develop an estimated 3,750 rental homes by 2030 while leveraging more than \$30 million in unused Federal tax credits.

#### Challenge:

- 1.) Developers interested in building rental properties with lower rents are unable to cash flow developments compared to market rate rental properties. Since the late 1980s Federal tax credits have been used to encourage developers to build affordable housing and offset the loss in cash flow.
- 2.) The State is currently leaving in excess of \$30 million in Federal tax credits unused through the Federal 4% Low-Income Housing Tax Credit program due to low developer demand from the inability to fill financing gaps.

#### Proposed Solution:

Establish a new Iowa Housing Tax Credit program to be used in parallel with the 4% Federal Low-Income Housing Tax Credit program to help fill the existing development funding gap.

#### Investment:

- Annual allocation of \$15 million
- Tax credit period: 10 years

#### Estimated Impact:

- The annual development of approximately 375 rental homes for lowans earning 80% of the Area Median Income (AMI) or below.
  - The income limits are determined by the U.S. Department of Housing and Urban Development and vary by county of residence and household size.
- Leverage \$15 million per year of currently unused Federal 4% tax credits.
- Enable the development of smaller projects in rural areas using the Federal 4% tax credits.



*Centerville Senior Lofts — 9% Housing Tax Credit Project*  
*Similar projects to be developed using Iowa Housing Tax Credit Program*



Maquoketa Pocket Neighborhood

## 2. Remove current funding restriction to provide Local Housing Trust Funds more resources for local housing priorities.

**Challenge:** The State Housing Trust Fund awards grants to Local Housing Trust Funds covering all 99 counties based upon a formula. Demand for funds to support local housing initiatives as well as the number of Local Housing Trust Funds have grown but appropriations to the State Housing Trust Fund have remained at \$6 million since FY13, which has caused a decrease in the annual grant award amount available to each Local Housing Trust Fund. Up to 30% of Real Estate Transfer Taxes (RETT) are appropriated to SHTF, but RETT transfers are currently capped at \$3 million by Iowa Code sec. 428A.8(3).



**Proposed Solution:** Remove the language found in Iowa Code section 428A.8(3) that caps transfers of RETT at \$3 million. This means that the full 30% of RETT would be transferred to the State Housing Trust Fund.

**Investment:**

The fiscal impact is a potential \$3 to \$4 million.

**Estimated Impact:** An additional \$3-\$4 million annual investment would assist an estimated 1,000-1,500 families earning at or below 80% of Area Median Income (AMI).



### 3. Expand Workforce Housing Tax Credit Program to spur development of an additional estimated 3,200 homes per year.

**Challenge:**

The Workforce Housing Tax Credit (WHTC) program is a highly successful model for incenting developers to convert abandoned, empty or dilapidated properties into housing. However, program demand combined with outdated cost maximums have paused the program's effectiveness.

- 1.) The program's codified cost maximums are outdated. The average unit cost in small cities is higher than the maximum allowed through the program. Raising these maximums would allow more developers to build in small communities. Currently, the average dwelling unit cost may not exceed \$200,000 for new construction projects, \$215,000 for small city projects and \$250,000 for historic preservation projects.
- 2.) The WHTC program has an urban backlog of \$13.3 million. Without an additional allocation, it will be spring of 2022 before the Iowa Economic Development Authority (IEDA) can have another regular application round for projects in the largest 12 counties, with awards made after July 1, 2022.
- 3.) In 2020, IEDA awarded all of the available \$10 million in WHTC that were allocated for Disaster Recovery.



Pierce School Lofts, Davenport

**Proposed Solution:**

- 1.) Allow IEDA to set average dwelling unit cost maximums based on market rates. If IEDA could set these maximum costs by rule, separate rates could be applied for small vs. large cities as well as for single family vs. multifamily housing units.
- 2.) Increase the WHTC allocation from \$25 million to a total of \$50 million for three years to clear the backlog of WHTC projects to make awards to new WHTC projects beginning July 1, 2021.
  - Of this amount, increase the small cities set-aside from \$10 million to \$20 million.
- 3.) Revise the Disaster Recovery WHTC component so they are awarded on a competitive basis instead of first-come, first-serve to ensure that when Disaster Recovery WHTC are needed again that they are awarded to housing projects that are ready for construction and most likely to contribute to the economic recovery of the disaster-affected community.

**Investment:**

An Additional \$25 million per year for the next three fiscal years.

**Impact:**

Based on average number of units per year since the program was created in 2015, it's anticipated that the proposed funding increase would fuel the development of 3,270 units per year for the next three years. The program previously assisted an average of 1,635 units per year.

#### 4. Partner with local financial institutions to establish a downtown loan guarantee program to assist COVID-19-impacted businesses.

**Challenge:** Local businesses have been hit hard with closures because of the COVID-19 crisis and the derecho and as a result, they are experiencing financing barriers.

**Proposed Solution:** The creation of a loan guarantee program for eligible downtown revitalization projects. IEDA and IFA will partner with Iowa financial institutions to secure funding for eligible brick and mortar projects.

**Eligible projects:**

- Must include an eligible housing component
- Must include a rehabilitation component and may include acquisition or refinance
- Must include at least 25% in construction or renovation costs
- Must finance brick and mortar projects meeting Main Street Iowa design review

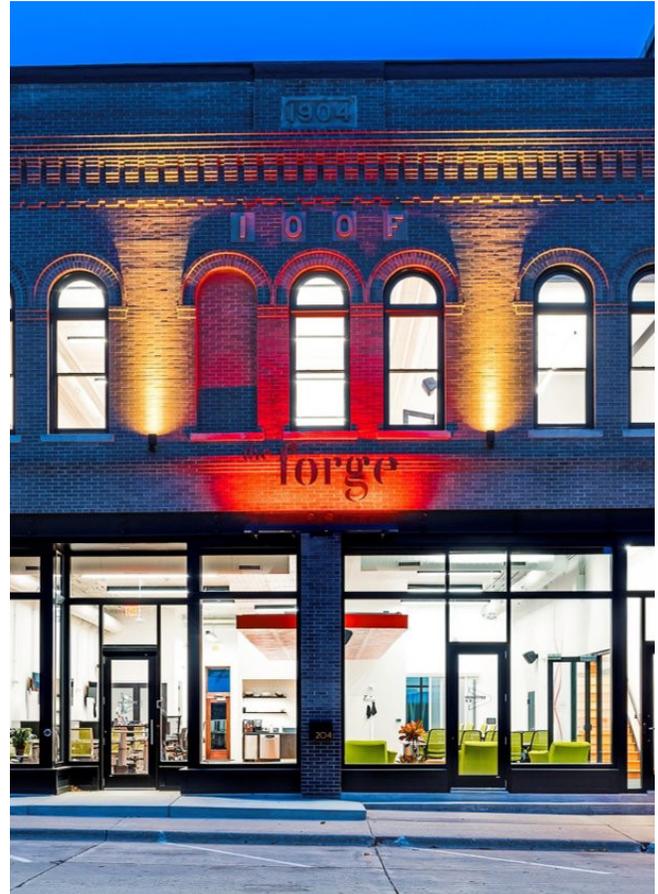
IEDA will guarantee loans for 5 years with the possibility of an additional 5 years based on the underwriting review.

- Up to a 50% loan guarantee for loans under \$500,000.
- Up to a maximum loan guarantee of \$250,000 for loans over \$500,000.

**Investment:**

No appropriation.

**Impact:** Estimated to assist approximately 40 Iowa main street businesses per year and a total of up to 200 businesses.



*The Forge, Jefferson*

## 5. Create a Disaster Recovery Housing Assistance Program to expedite help for homeowners and renters after a natural disaster.

**Challenge:** After the natural disasters of 2008 and 2010, the State made a total of four allocations to Iowa Finance Authority (IFA) for disaster housing assistance programs. Each of the four state funding allocations had their own legislative requirements, creating inconsistency and confusion for Iowa homeowners.

**Proposed Solution:** Create a standing Disaster Recovery Housing Assistance Program that may be activated upon the issuance of a state disaster proclamation. Allow IFA to award forgivable loans to eligible homeowners and grants to eligible renters if their primary residences have been destroyed or damaged due to a natural disaster. The proposal also establishes a standing Eviction Prevention Program to be administered by IFA for renters.

**Investment:** To be funded upon the event of a natural disaster.

**Impact:** A standing Disaster Recovery Homeowner Assistance Program will enable the State to act quickly to spur housing recovery in communities impacted by natural disasters. Likewise, a standing eviction prevention program will expedite rental assistance available for tenants impacted by natural disasters and public health emergencies.



*Habitat for Humanity, Rebuild Blitz Build, Marshalltown*



*The Warrior Apartments, Sioux City*

## 6. Expand the Redevelopment Tax Credit Program to spur the redevelopment of underutilized facilities.

**Challenge:** The Redevelopment Tax Credit Program is an important tool for redeveloping brownfield sites and idled or underutilized industrial or commercial facilities. The Program provides a financial incentive of up to 24% of a project's cost to redevelop distressed industrial and commercial property in the form of tax credits.

The program is capped at \$10 million per year and has been fully subscribed for several years, with funding requests of 3-4 times the amount of available credits. The tax credits are set to expire on June 30, 2021.

### **Proposed Solution:**

- 1.) Extend the sunset date for the redevelopment tax credits 10 years to June 30, 2031.
- 2.) Allow any unallocated or unused redevelopment credits to be carried forward for allocation to the following fiscal year.
- 3.) Increase the allocation from \$10 million to \$20 million per year.

**Investment:** An annual increase of \$10 million.

**Impact:** The program would assist an estimated 40 businesses in revitalizing neighborhoods, developing housing and boosting economic growth in redeveloping communities. The program leverages \$13.25 of private investment for every \$1 of tax credits.