



MEMO

TO: City Council
FROM: Planning & Development Services Department, Shavon Caldwell, Planner
DATE: August 20, 2019
RE: LIHTC-19-02 (Redwood)

Background & History

LIHTC-19-02 was reviewed at the June 17th City Council Committee on Workforce Housing meeting. At that time the Committee requested additional information and context in order to provide guidance on the request for resolution of support/no objection. The Committee requested a more comprehensive overview of **all** the low-income housing tax credit properties in San Marcos. The Committee requested basic information such as the total number of housing tax credit properties that already exist, the status of each property, the age of each development, and basic metrics and staff input on how the program is addressing the City's housing needs. The Committee also requested additional information and staff input on criteria #8 which requires projects be mixed income and provide at least 20% market rate units. In addition, the Committee had questions for the applicant regarding the requested tax exemption, proposed shuttle service, number of market rate units, cost of units, and access to CARTS. In response to the Committee's request, an overview of all housing tax credit properties in San Marcos, a brief review of the intent behind and research supporting criteria #8, and the applicant's response to the Committee's questions are included in this memo.

Summary of Low-Income Housing Tax Credit Projects in San Marcos Housing Tax Credit Program, A Refresher

The Housing Tax Credit program is administered by Texas Department of Housing and Community Affairs. The program awards tax credits to eligible participants in order to offset a portion of their federal tax liability in exchange for the production or preservation of affordable rental housing. The HTC program is designed to provide a source of equity financing for the development of affordable housing while maximizing the number of affordable units added to the state's housing supply. When tax credits are awarded by TDHCA to a developer he is able to sell the credits to an equity provider in exchange for capital needed to construct the project. This capital and the reduction in borrowed debt allows the development of high-quality construction that can be offered at a more affordable price point. Investors benefit from the reduced tax liability in exchange for their investment and communities benefit from quality developments that are required to operate as rent restricted housing for up to 30 years or more.

In contrast to Section 8 properties and other public housing authority properties, housing tax credit (HTC) rents are not based on a percentage of the tenant's actual income but are instead restricted to a maximum rent they are allowed to charge. Maximum rents are based on Department of Housing and Urban Development (HUD) median income limits that are published on an annual basis. While Section 8 properties

may increase only as the occupying household's income increases, HTC rental rates may increase or decrease annually based on published limits. These limits account for household income level as well as the number of bedrooms in the unit. Tenants earning up to 60% of the area median family income for the area and for their household size and who meet the screening and eligibility restrictions of the property may qualify for the reduced rent units available through the HTC program. HUD has published the below income limits that have been updated for the 2019 fiscal year.

FY 2019 MTSP Income Limits										
FY 2019 MTSP Income Limit Area	Median Family Income	Income Limit Category	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
Austin-Round Rock, TX MSA	\$95,900	50 Percent Income Limits	\$33,150	\$37,850	\$42,600	\$47,300	\$51,100	\$54,900	\$58,700	\$62,450
		60 Percent Income Limits	\$39,780	\$45,420	\$51,120	\$56,760	\$61,320	\$65,880	\$70,440	\$74,940

HUD User, 2019 Multifamily Tax Subsidy Income Limits

In addition, TDHCA has developed the below tool to estimate applicable income and rent limits the Department expects to use when monitoring.

Income Limits

AMFI %	Number of Household Members							
	1	2	3	4	5	6	7	8
20	\$ 13,260	\$ 15,140	\$ 17,040	\$ 18,920	\$ 20,440	\$ 21,960	\$ 23,480	\$ 24,980
30	\$ 19,890	\$ 22,710	\$ 25,560	\$ 28,380	\$ 30,660	\$ 32,940	\$ 35,220	\$ 37,470
40	\$ 26,520	\$ 30,280	\$ 34,080	\$ 37,840	\$ 40,880	\$ 43,920	\$ 46,960	\$ 49,960
50	\$ 33,150	\$ 37,850	\$ 42,600	\$ 47,300	\$ 51,100	\$ 54,900	\$ 58,700	\$ 62,450
60	\$ 39,780	\$ 45,420	\$ 51,120	\$ 56,760	\$ 61,320	\$ 65,880	\$ 70,440	\$ 74,940
70	\$ 46,410	\$ 52,990	\$ 59,640	\$ 66,220	\$ 71,540	\$ 76,860	\$ 82,180	\$ 87,430
80	\$ 53,040	\$ 60,560	\$ 68,160	\$ 75,680	\$ 81,760	\$ 87,840	\$ 93,920	\$ 99,920
120	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Rent Limits

AMFI %	Number of Bedrooms					
	0	1	2	3	4	5
20	\$331	\$355	\$426	\$492	\$511	\$605
30	\$497	\$532	\$639	\$738	\$823	\$908
40	\$663	\$710	\$852	\$984	\$1,098	\$1,211
50	\$828	\$887	\$1,065	\$1,230	\$1,372	\$1,514
60	\$994	\$1,065	\$1,278	\$1,476	\$1,647	\$1,817
65						
70	\$1,160	\$1,242	\$1,491	\$1,722	\$1,788	\$2,120
80	\$1,326	\$1,420	\$1,704	\$1,968	\$2,196	\$2,423

Texas Department of Housing and Community Affairs, Project Income and Rent Tool

The HTC application process is governed by Section 42 of the Internal Revenue Code, TDHCA rules, and TDHCA's annually updated and adopted Qualified Allocation Plan and Rules or "QAP". The QAP defines a series

of point-based selection criteria to ensure the proposed housing is consistent with the program's and state's goals. The top scoring criteria for the Competitive 9% low income housing tax credits are laid out in statute and local government resolutions are a significant scoring item. Similarly, applications received by TDHCA under the Non-competitive 4% program must receive resolutions showing "no objection" to the proposed development to demonstrate alignment with local community goals and support.

Housing Tax Credit Properties in San Marcos, Where Are We?

To date, there are eleven TDHCA Board approved multifamily apartment projects in San Marcos. Ten of those eleven multifamily properties are actively renting units and one project (Mission Trails at El Camino) is currently under construction. In addition, there are two proposed multifamily complexes that have received a resolution of support or no objection from the City but have not yet been approved by TDHCA and there are two projects that have requested a resolution of no objection from the City and are still under review. A map of these projects and their status can be viewed in Exhibit A-San Marcos Housing Tax Credit Properties. A table of these project with total unit counts is shown below.

Completed or Under Construction			
	Income Restricted Units	Market Rate Units	Total Units
Asbury Place	64	0	64
Champions Crossing	156	0	156
Country Oaks	160	0	160
Encino Pointe	252	0	252
La Vista Retirement Community	150	50	200
Mariposa Apartments	182	0	182
Sienna Pointe	228	0	228
Stone Brook Seniors	206	0	206
Sunrise Village (Phase 2 Only)	60	0	60
Villas at Willow Spring	135	85	220
Mission Trails at El Camino	283	69	352
Total	1,876	204	2,080
Resolution Approved-Under TDHCA Review			
Riverstone	336	0	336
Villas Del San Xavier	156	0	156
Total	492	0	492
Resolution Application Under Review			
Redwood	298	38	336
The Reserve at San Marcos (Cottonwood Creek)	320	56	376
Total	618	94	712
Grand Total	2,986	298	3,284

Texas Department of Housing and Community Affairs and City of San Marcos, Total Income Restricted and Market Rate Units

To date, a total of 1,593 income restricted units have been constructed through the Housing Tax Credit program. Upon the completion of the Mission Trails at El Camino complex an additional 283 income restricted units will be added by the program. The four pending projects under review by the City and TDHCA (Riverstone, Redwood,

The Reserve, and Villas Del San Xavier) propose to add an additional 1,110 income restricted units for a total of 2,986 units restricted to households making 60% of AMI or less.

The majority of the City's apartments utilizing housing tax credits entered the program in the mid 90's through early 2000's and have a 30-year affordability period. Sienna Pointe is the newest housing tax credit project in San Marcos and is not scheduled to reach the end of its affordability period until 2044. Country Oaks is the oldest housing tax credit project in San Marcos and is scheduled to complete its period of affordability in 2025. A full list containing each property's period of affordability is provided below.

Housing Tax Credit Projects Affordability Period			
	End of Affordability Period	Years from Now	Total Affordability Period
Country Oaks	12/31/2025	6	30
Sunrise Village (Phase 2)	12/31/2028	9	30
Champions Crossing	12/31/2031	12	30
Stone Brook Seniors	12/31/2031	12	30
Mariposa Apartments	12/31/2036	17	30
La Vista Retirement Community	12/31/2039	20	40
Asbury Place	12/31/2040	21	40
Encino Pointe	12/31/2040	21	30
Villas at Willow Spring	12/31/2042	23	40
Sienna Pointe	12/31/2044	25	30

Texas Department of Housing and Community Affairs and City of San Marcos, Period of Affordability

In general, Housing Tax Credit projects are primarily located on the South side of town. Newly approved and currently under review complexes specifically, are located in the Southeast portion of town in the vicinity of Wonder World Drive and Highway 123 south to Old Bastrop Road and Highway 123. For the locations of these properties please see Exhibit A-San Marcos Housing Tax Credit Properties.

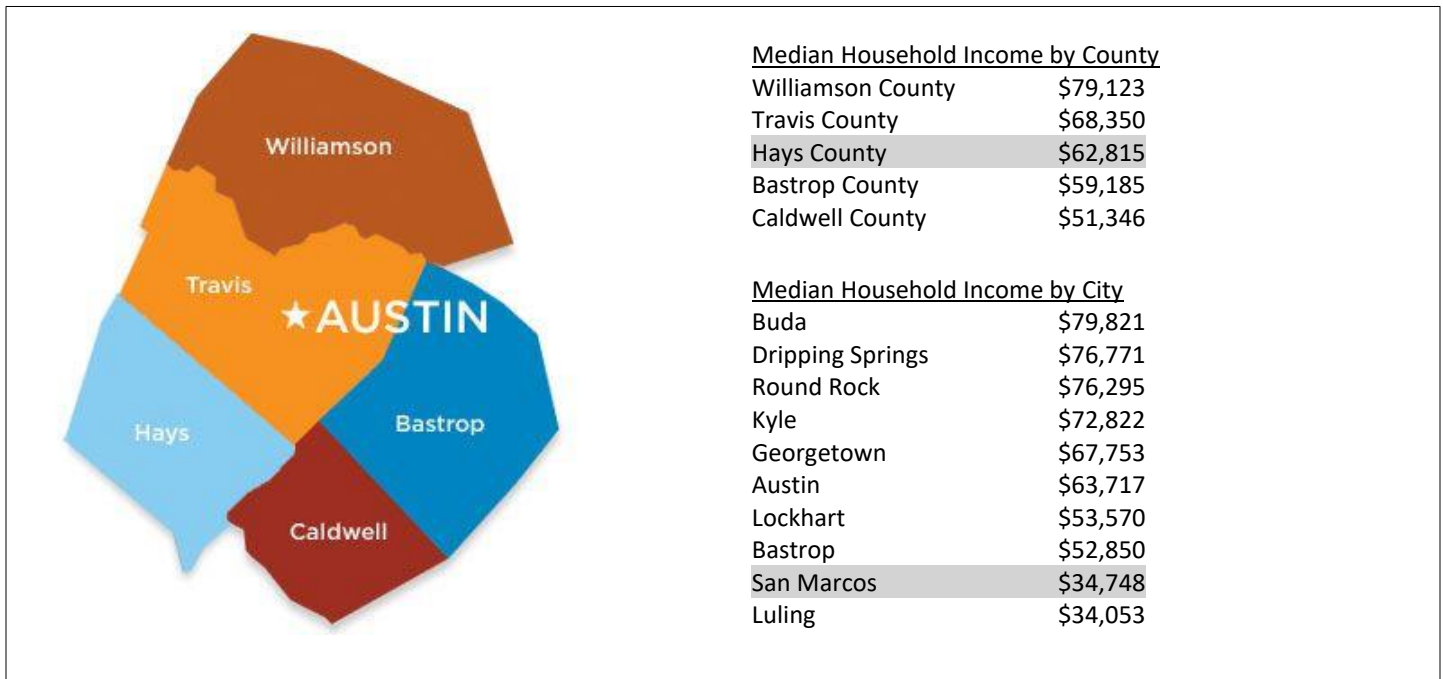
Meeting San Marcos Housing Needs

In an effort to better understand and address housing challenges in San Marcos the City commissioned Root Policy Research to conduct a thorough housing needs assessment in 2018-2019. The primary findings from the assessment indicate the need for 1) Additional affordable rentals for residents earning less than \$25,000, 2) Displacement prevention, 3) Family homes priced near or below \$200,000 and increased ownership product diversity, and 4) Improved condition and accessibility of existing housing stock.

The LIHTC program is a key policy tool for preserving and expanding the supply of affordable rental housing. Between 1987 and 2015 the program has placed 45,905 properties and 2.97 million housing units into service (HUD 2017). The program is the longest running national affordable rental housing program producing new units and by many accounts, it has been quite successful as a housing production tool, particularly when compared with other federal rental housing production programs. Despite these successes, the program has limitations, particularly in addressing the City's lowest income residents, and shouldn't be viewed as a "silver bullet" in addressing the City's housing needs. Some shortcomings of the program in addressing the primary findings from the housing needs assessment are outlined below for consideration.

HUD Designated Income Limits are not Representative of San Marcos Incomes

The income and rent limits utilized by the housing tax credit program are informed by *area median income*, or *AMI*. AMI is defined annually based on HUD market studies and is used as a measure of how a family's income compares with the median income of all families in a geographic area. It is commonly used by HUD to determine eligibility for housing programs to ensure that programs are properly targeted to those who need them. San Marcos is part of the Austin Metropolitan Statistical Area and such shares AMI designation with the broader metro area. In comparing local household incomes to other cities within the Austin MSA it's apparent that the median income for San Marcos residents is significantly lower than incomes throughout the rest of the metro area. As AMI is calculated for the entire MSA, the income limits determined by the AMI are not necessarily reflective of the local San Marcos market.



Austin-Round Rock Metropolitan Statistical Area, Media Household Income by County and City

TDHCA Income Limits for LIHTC Program

Household Size	50% AMI	60% AMI
Household of 1	\$34,550	\$41,460
Household of 2	\$39,500	\$47,400
Household of 3	\$44,450	\$53,340
Household of 4	\$49,350	\$59,220

San Marcos Median Household Income

Household Type	Median Income
All households	\$34,478
Family households	\$49,551
Non-family households	\$25,367

*Texas Department of Housing and Community Affairs, Project & Income Rent Tool
Root Policy Research, San Marcos Housing Needs Assessment (based off 2017 ACS 5-year estimate)*

LIHTC Units Are Typically Only Restricted to 60% AMI

Approximately 85% of existing and proposed HTC units in San Marcos are only required to be restricted to those making 60% or less of the area median income. Based on the current area median income of \$95,900 and TDHCA's estimated rent restrictions, this means that the vast majority of typical HTC units in San Marcos are

only required to limit rents to between ~\$990-\$1,640 (depending on number of bedrooms, see TDHCA estimated rent restrictions table on page 2 of the memo).

Name	Units Restricted >30% AMI	Units Restricted 31-50% AMI	Units Restricted 51-60% AMI	Units Restricted 61%-80% AMI	Market Rate Units	Total Units
Asbury Place	0	20	44	0	0	64
Champions Crossing	0	0	156	0	0	156
Country Oaks	0	0	160	0	0	160
Encino Pointe	14	0	238	0	0	252
La Vista Retirement Community	0	45	105	0	50	200
Mariposa Apartment Homes	0	0	182	0	0	182
Sienna Pointe	12	0	216	0	0	228
Stone Brook Seniors	0	0	206	0	0	206
Sunrise Village 2	0	24	36	0	0	60
Villas at Willow Spring	0	41	94	0	85	220
Mission Trails at El Camino	0	0	283	0	69	352
Riverstone	0	0	336	0	0	336
Villas Del San Xavier	0	0	156	0	0	156
Redwood	0	38	260	0	38	336
The Reserve (Cottonwood Creek)	0	0	320	0	56	376
Total	26	168	2,792	0	298	3,284

Texas Department of Housing and Community Affairs and City of San Marcos, Number of Units by Income Restriction

Based off data included in the San Marcos Housing Needs Assessment, the 2017 median rent in San Marcos was \$898 for a 1-bedroom apartment and \$1,423 for a 4-bedroom apartment. As the majority of LIHTC units are only required to restrict rents to 60% AMI, the program has the potential to produce units priced higher than the City's median rent.

Rental Size	TDHCA Estimated Rent Limits at 60% AMI	San Marcos 2017 Median Rent
Efficiency	\$994	\$845
1 bedroom	\$1,065	\$898
2 bedrooms	\$1,278	\$973
3 bedrooms	\$1,476	\$1,297
4 bedrooms	\$1,647	\$1,423

*Texas Department of Housing and Community Affairs, Project & Income Rent Tool
Root Policy Research, San Marcos Housing Needs Assessment*

LIHTC Units Are Generally for Small, Able-Bodied Households

According to the San Marcos Housing Needs Assessment, families with children and large households may have a particularly difficult time finding affordable units as only 7% of non-student apartments in the City have 3+ bedrooms and the median rent for these bedrooms ranges from ~\$1,300-\$1,450. Rent limit estimates available from TDHCA indicate that the rent for new, income restricted units of this size may be even higher (see income and rent limit estimates tool).

Name	Efficiency	1 Bedroom	2 Bedroom	3 Bedroom	4 Bedroom	Total Units
Asbury Place	0	0	24	40	0	64
Champions Crossing	0	0	60	72	24	156
Country Oaks	0	48	80	32	0	160
Encino Pointe	0	12	132	96	12	252
La Vista Retirement Community	0	100	100	0	0	200
Mariposa Apartment Homes	0	113	69	0	0	182
Sienna Pointe	0	24	108	83	13	228
Stone Brook Seniors	0	60	146	0	0	206
Sunrise Village 2	0	60	0	0	0	60
Villas at Willow Spring	0	0	132	88	0	220
Mission Trails at El Camino	0	110	107	100	33	350
Riverstone	0	36	144	132	24	336
Villas Del San Xavier	0	96	60	0	0	156
Redwood	0	36	144	132	24	336
The Reserve (Cottonwood Creek)	0	124	178	56	18	376
Total	0	819	1484	831	148	3284

Texas Department of Housing and Community Affairs, Unit Mix by Bedroom Count

Approximately 4.5% of existing and proposed units constructed under the housing tax credit program have 4 bedrooms. Nearly half of the units constructed through this program are (or are proposed to be) two-bedroom units.

The San Marcos Housing Needs Assessment also points out that in addition to general affordability challenges, there are specific population groups that have unique housing and/or supportive needs. According to the 2011-2015 HUD CHAS (Comprehensive Housing Affordability Strategy) referenced in the report, there were 4,815 households containing at least one household member with a disability. The report also found that two in five San Marcos residents with disabilities and in-home accessibility needs live in housing that does not meet their needs. By statute, 2% of all housing tax credit units in a project are required to be set aside for the vision and hearing impaired and 5% are required to be set aside for the mobility impaired.

Name	Accessible Units	Percentage of Total Units
Asbury Place	11	17%
Champions Crossing	13	8%
Country Oaks	8	5%
Encino Pointe	19	13%
La Vista Retirement Community	32	16%
Mariposa Apartment Homes	14	8%
Sienna Pointe	17	7%
Stone Brook Seniors	12	6%
Sunrise Village 2	6	10%
Villas at Willow Spring	22	10%
Mission Trails at El Camino	25	7%
Riverstone	20	6%
Villas Del San Xavier	9	6%
Redwood	20	6%
The Reserve (Cottonwood Creek)	28	7%
Total	256	8%

Texas Department of Housing and Community Affairs, Accessible Units

LIHTC Units Don't Address the Rental Gap

As part of the Housing Needs Assessment a Gaps Analysis was performed that compares the supply of housing at various price points to the number of households who can afford such housing. In instances where there are more housing units than households, the market is “oversupplying” housing at that price range. Conversely, if there are too few units, the market is “undersupplying” housing. The analysis showed a rental gap of 5,950 units for renters making less than \$25,000 and an oversupply of units for renters with incomes greater than \$25,000. The vast majority of units constructed via the housing tax credit program do not have income limits that address this gap.

Gaps in Rental Market, City of San Marcos, 2017

Renter Incomes	Maximum Rent + Utilities per Month	Renter Households		Rental Units		Gap
		Number	Percent	Number	Percent	
Less than \$5,000	\$125	2,045	13%	49	0%	(1,996)
\$5,000-\$9,999	\$250	1,187	7%	68	0%	(1,119)
\$10,000-\$14,999	\$375	1,496	9%	212	1%	(1,285)
\$15,000-\$19,999	\$500	1,264	8%	297	2%	(968)
\$20,000-\$24,999	\$625	1,498	9%	916	6%	(583)
\$25,000-\$34,999	\$875	2,445	15%	4,163	26%	1,718
\$35,000-\$49,999	\$1,250	2,555	16%	6,354	40%	3,799
\$50,000-\$74,999	\$1,875	2,013	12%	2,660	17%	647
\$75,000-\$99,999	\$2,500	944	6%	1,123	7%	179
\$100,000+	\$2,500+	809	5%	44	0%	(765)
Total/Low Income Gap		16,256	100%	15,884	100%	(5,950)

Source: 2017 5-year ACS and Root Policy Research.

Resolution of Support Criteria #8, Mixed Income Communities

Criteria #8 of the housing tax credit resolution application requires that the project be “mixed income and provide at least 20% market rate units”. While the definition of mixed-income housing is broad and encompasses many different types of dwellings and neighborhoods, generally speaking, a mixed income housing development is one that includes a diverse product mix for people with a range of income levels. The concept became popular in the 1980s and 90s as policy makers proposed demolishing inner city “projects” and replacing them with mixed-income housing. Advocates for mixed-income housing purported that the notorious high-rise public housing complexes being constructed up until this point only served to concentrate poverty, encourage welfare dependency, increase crime and violence, and contribute to urban disinvestment and decline.

In addition to de-concentrating poverty, advocates of mixed-income housing maintain that mixed income communities promote opportunity and upward mobility. Advocates of the concept point to empirical research showing neighborhood effects-the impacts of peers, the local environment, and neighbors-contribute

significantly to success later in life. In other words, poor kids who grow up in more mixed income neighborhoods have better lifetime economic results.

Finally, incorporating the mixed income approach and offering a mixture of rent restricted and market rate units can serve as a way of ensuring that the development has to compete for market rate tenants. To compete with market rate properties, the property utilizing tax credits has to be safe, secure, well maintained and have amenities that are similar to or more attractive than their market rate competitors.

In light of this information one may wonder why LIHTC projects often contain 100% affordable units even though investors are allowed to develop mixed-income housing (which would mean offering some affordable units through LIHTC investments while offering the rest at market rate rents). In summary, tax credits can only be used for affordable units thus creating an incentive for 100% affordable developments that maximize the amount of equity raised for the projects.

Applicant Response to Housing Committee Questions

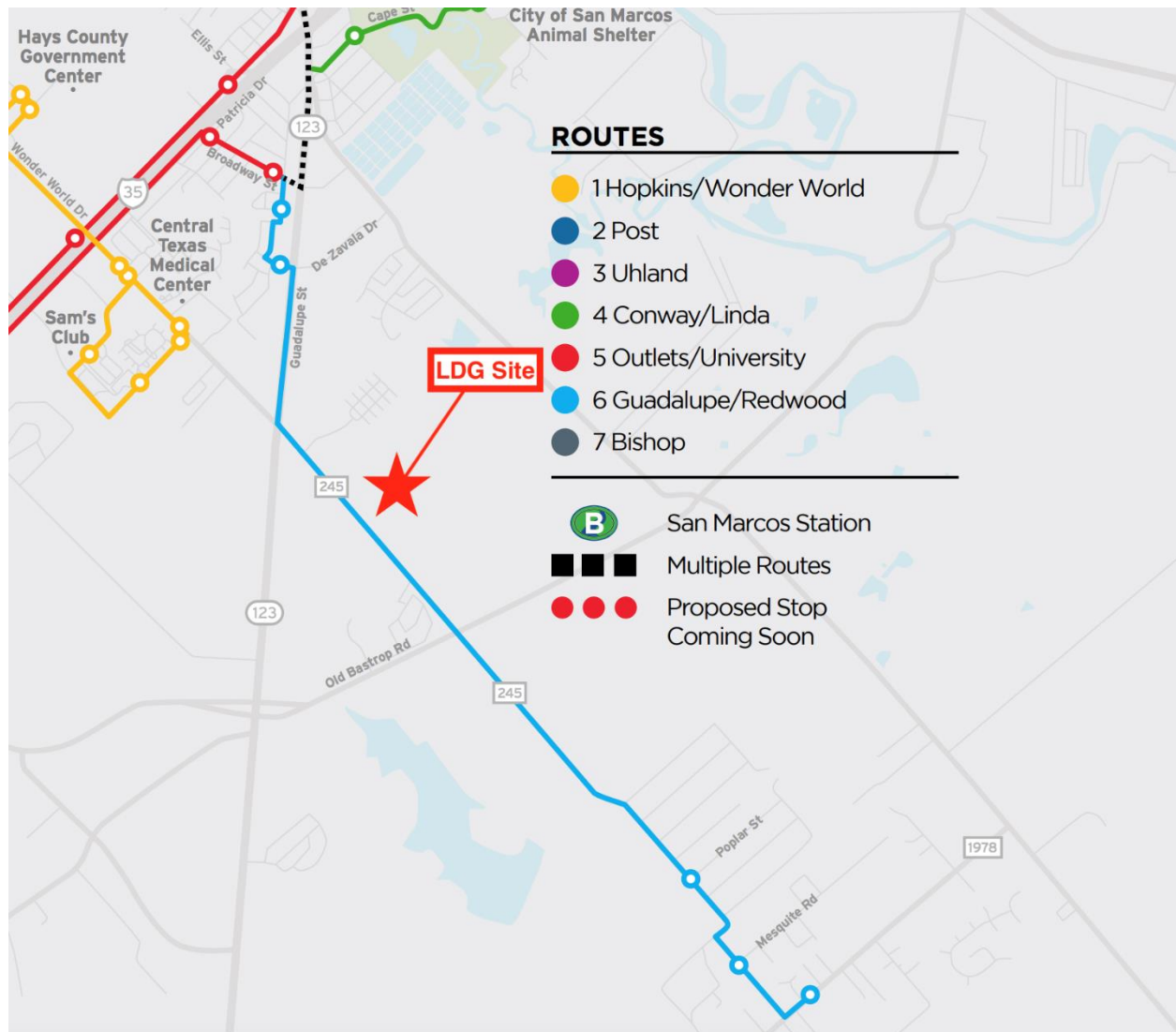
The below table contains the applicant's response to the Committee's questions from the June 17th Committee meeting.

Council Discussion Topic	Applicant Commentary
Tax Exemption – At the least, the applicant needs to meet criteria #8 in order to consider this request. What additional criteria will be met/benefits be offered with a tax exemption?	<p><i>We cannot hit the city's 20% market rate requirement, but we can commit to 11% of the total units being market rate. In addition to this, we will be providing units to serve people in the 60% AMI and the 50% AMI brackets. We would also like to be able to offer residents amenities that we don't typically offer (i.e. swimming lessons, fitness classes, movie theatre room, game room, etc).</i></p> <p><i>Tax Exemption Information – This tax exemption would be solely for property taxes and would be obtained through a partnership with Capital Area Housing Finance Corporation (CAHFC). By structuring our deal to allow a non-profit to take part in the ownership (i.e. CAHFC), our project would be eligible for this property tax exemption. However, we would only do this with the city's blessing. By granting us the property tax exemption, it will allow us to develop an extremely above average affordable housing project that will serve a variety of income brackets. The tax exemption will also allow for us to provide unique amenities to residents like the ones mentioned above. Most of all, it will allow us to develop safe, quality affordable housing and it will be a project that residents will be proud to call home.</i></p>
Diverse Housing – Can the project provide a wider range of affordable units, specifically, the incorporation of market-rate units?	<i>See above. We understand the city's desire for market rate units, but our goal with every project is to put as many affordable units on the ground as possible. We are currently proposing 38 units restricted to 50% AMI, another 38 to be market rate units and the remaining 260 units will be 60% AMI. This is a true "mixed income" project that will serve people across all income bands.</i>
Transit – Will a transit stop be incorporated into the project?	<i>I have been in contact with CARTS General Manager David Marsh about adding a transit stop in front of our project along Redwood Rd. Per the CARTS route map, there is already an existing route along Redwood Rd. However, there is no stop between De Zavala Dr. and Poplar St. This is a distance of approximately 3 miles with no transit stops. David is aware of this and his team is looking into the</i>

	<i>possibility of adding a stop in front of our development. I've attached an exhibit detailing this below.</i>
Shuttle Service – More information is needed on the potential shuttle service discussed in the application. What will the hours of operation be? How frequently will the shuttle run? What will be the destinations? Will it be an on demand or scheduled service? Will extended hours (beyond CARTS operating hours) be offered? What type of surety can be offered to guarantee this service?	<i>The way we have done this in the past is having the shuttle run certain days/times to certain locations. For example, on Tuesday's at 10:00AM the shuttle will take folks to HEB, on Thursday's it will take folks to the doctor's office, etc. The frequency of the trips would be determined by how often the residents request it. We are prepared to offer this amenity, but if CARTS were to implement a bus stop in front of our development that will likely be a more readily available option. It should be noted that more often than not, residents in the income brackets we are targeting (60% AMI, 50% AMI and market rate) will have their own method of transportation, so they don't rely as heavily on public transportation.</i>
Cost – Would like to know the rent cost for units.	<i>I've attached a table below breaking down the rents for each unit and bedroom type. All the rents listed below (with the exception of market rate) are set by HUD. Market rate rents will be based on area comps.</i>

REDWOOD - San Marcos, TX				
# of Br's	# of Baths	% of AMGI	# of Units	2018 Max. Rent
1-Br	1-Ba	60%	20	\$967
1-Br	1-Ba	50%	8	\$887
1-Br	1-Ba	Market Rate	8	\$1,050
2-Br	2-Ba	60%	112	\$1,161
2-Br	2-Ba	50%	16	\$1,065
2-Br	2-Ba	Market Rate	16	\$1,250
3-Br	2-Ba	60%	108	\$1,341
3-Br	2-Ba	50%	12	\$1,230
3-Br	2-Ba	Market Rate	12	\$1,450
4-Br	2-Ba	60%	20	\$1,497
4-Br	2-Ba	50%	2	\$1,372
4-Br	2-Ba	Market Rate	2	\$1,650
TOTAL			336	

LDG Development, Redwood Proposed Rental Limits



LDG Development, Redwood Location with CARTS Routes and Stops