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Preserving Louisiana's Investments in Affordable Housing: Housing Project Profiles and Policy Recommendations

Department of Planning and Urban Studies, University of New Orleans

Preserving Louisiana's Low-Income Housing Tax Credit Investments

Project Profiles and Policy Recommendations

THE UNIVERSITY of NEW ORLEANS

University of New Orleans
Department of Planning and Urban Studies
Master of Urban and Regional Planning Program
MURP 6720 Capstone, Spring 2011

LOUISIANA HOUSING FINANCE AGENCY
" The American Dream. Louisiana's Dream. Our Dream For You "

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Preserving Louisiana's Investments in Affordable Housing

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Preserving Louisiana's Investments in Affordable Housing

Executive Summary

Within the next two years, 4,553 Low-Income Housing Tax Credit [LIHTC] units in the state of Louisiana will come to the end of their initial 15 year compliance period. Within the next six years, an additional 4,743 units will reach this crucial 15 year point. The LIHTC is currently the largest subsidy available for the creation of low-income rental housing in the United States (Schwartz, 2010). The LIHTC was created by the Tax Reform Act of 1986 as an item in the Internal Revenue Code and acts as a tool to attract equity investors into low-income rental housing developments. Despite changes to the LIHTC program in 1989 that extended the affordability period of these units from 15 to 30 years, LIHTC projects still face a crossroads as they reach the end of their initial 15 year compliance period. At this point, LIHTC projects face a critical juncture in terms of the developers' and investors' ability or desire to maintain affordability. Developers and investors may 'opt out' of the program and end affordability restrictions at year 15 from the placed-in-service [PIS] date. Another concern is that properties may become unlivable due to a lack of funds to make needed repairs. Deferred maintenance can be addressed through recapitalization to repair declining properties and to ensure that if properties remain affordable, these properties also remain viable and safe for continued occupancy. Louisiana currently addresses preservation of affordability of LIHTC projects by providing a point incentive for projects willing to commit to an extended affordability period beyond the base requirements. This point incentive is a part of Louisiana's Qualified Allocation Plan, which is used to rank and make selections within the pool of LIHTC project applications.

The year 15 issue is present in both strong and weak markets and it centers around how to make units affordable either by preserving long-term affordability, ensuring that funds are sufficient to make repairs and keep units safe, or a combination of both efforts. The University of New Orleans Department of Planning and Urban Studies [UNO-PLUS], with the invaluable assistance of Louisiana Housing Finance Agency [LHFA] staff, has created this report to address the year 15 issue and explore the topic of preservation of affordable housing funded through the LIHTC program. For the purpose of this report, UNO-PLUS has limited the definition of preservation to specifically address LIHTC projects that are reaching this crucial 15 year point and does not focus on preservation of affordable housing units funded by other programs.

This report analyzes current data on Louisiana LIHTC projects as well as national preservation practices to attempt to provide a basis for advancing preservation policies in Louisiana. The report is broken down into two main sections:

1. Profiles of Louisiana's LIHTC projects approaching the end of their initial 15 year compliance period in the next ten years (2012-2022)
2. National practices to preserve affordable housing funded by LIHTC

Executive Summary (continued)

To complete section one, the report draws on data from Louisiana Housing Finance Agency 2010 Pipeline reports and the Department of Housing and Urban Development [HUD] LIHTC User database. To complete section two, the UNO-PLUS team reviewed Qualified Allocation Plans [QAPs] from each of the 50 states to extract any mechanisms used to promote preservation of affordable housing funded through LIHTC. This report concludes with recommendations for how to improve policies and create mechanisms to promote preservation of LIHTC projects in Louisiana as well as suggestions for further research. UNO-PLUS hopes that this report will inform future decisions of the LHFA regarding the preservation of affordable LIHTC units.

This report finds that:

- Our report analyzed projects with PIS dates from 1997-2007. This accounts for a total of just over 13,500 units of affordable housing that will come to the end of their initial 15 year compliance period between 2012 and 2022.
- Our analysis divides these units into three "waves": 2012-2014, 2015-2018, and 2019-2022. Generally, these units will reach the end of their initial 15 year compliance periods evenly divided amongst these three waves, though they are distributed in various distinct parishes.
- Over 4,500 units of affordable housing in Louisiana will reach the end of their 15 year compliance period by 2014.
- By 2018, over 9,000 units of affordable housing will come to the end of their initial 15 year compliance period.
- Nearly one-third (32%) of the projects that will end their initial 15 year compliance period between 2012 and 2022 are concentrated in three parishes in Louisiana: Caddo, East Baton Rouge, and Orleans. Orleans parish faces the most acute short-term crisis, with just over 13% of projects that will expire by 2014.
- For-profit sponsorship of projects has grown from approximately 40% in earlier projects to the majority of newer projects.
- More recent LIHTC projects are more commonly financed with increasing reliance on the per capita 9% tax credit, rather than a mixture of sources. Greater use of other financing sources and leveraging of other federal subsidies will help preserve 9% credits for new affordable housing construction.

Introduction: Brief Summary of LIHTC Program History and 15 year Issue

The University of New Orleans Department of Planning and Urban Studies [UNO-PLUS], with the assistance of Louisiana Housing Finance Agency [LHFA] staff, has created this report to explore the topic of preservation of affordable housing funded through the Low-Income Housing Tax Credit [LIHTC] program and to address affordability and maintenance issues that may occur at year 15. At year 15 from the PIS date, developers and investors may opt out of the program and end affordability restrictions. Additionally at year 15, developers may need to recapitalize LIHTC properties to address deferred maintenance and to ensure that if properties remain affordable, these properties also remain viable and safe for continued occupancy. This report has a two-fold purpose of analyzing LIHTC project data for Louisiana and reviewing LIHTC preservation practices throughout the nation. This report consists of two main sections:

1. Profiles of Louisiana LIHTC projects that are approaching the end of their initial 15 year compliance period between the years 2012 and 2022.
2. A review of national practices[1] for the preservation of affordable housing funded by the LIHTC program

UNO-PLUS hopes that this report will assist LHFA in developing robust policies to ensure the affordability and continued operation of expiring LIHTC projects and to create a database of projects that are reaching the crucial 15 year mark.

LIHTC is currently the largest subsidy available for the creation of low-income rental housing in the United States (Schwartz, 2010). The LIHTC was created by the Tax Reform Act of 1986 as an item in the Internal Revenue Code and acts as a tool to attract equity investors into low-income rental housing developments. Developers receive tax credits based on the percentage of units dedicated to low-income households and the cost of the project. Developers sell these tax credits to investors in order to increase the amount of equity in a project and decrease debt. Investors are attracted to LIHTC projects due to the fact that they are able to reduce their federal income taxes by one dollar for every dollar in tax credits received for a period of ten years. Investors generally only provide equity and act as a Limited Partner [LP], while developers manage the development and act as a General Managing Partner [GP] (Lew-Hailer, 2007; Housing Development Corporation, 2006). Developers apply to a designated state agency, usually their local Housing Finance Agency [HFA], for either 4% or 9% tax credits (Schwartz, 2010). Nine percent credits are highly competitive due to the fact that these credits are allocated on a per capita basis and thus are limited in availability (HousingPolicy.org, 2010). Four percent tax credits produce a smaller amount of equity than 9% credits and thus are more likely to be used in rehabilitation and preservation projects that have lower development costs than new construction. Four percent credits are not subject to the same allocation limit as 9%, can be combined with the use of tax-exempt bonds, and thus are a more flexible source of equity (HousingPolicy.org, 2010).

1. Throughout the report, we use the phrase "National Practices" rather than "Best Practices" because best practices for the preservation of LIHTC properties have not yet been established. Nationally recognized think-tanks and advocacy groups such as LISC, Enterprise, the National Low-Income Housing Coalition (NLIHC), and the National Housing Trust (NHT) are beginning to research which of these practices are actually producing the intended results of preservation of at-risk properties.

Introduction (continued)

In order to receive LIHTCs, developers and investors must commit to keeping rents affordable for a pre-determined time period, which is enforced through land covenants placed on each LIHTC property. Until 1989, this time period was a 15 year compliance period. In 1989, the Internal Revenue Service [IRS] extended this 15 year compliance period to 30 years of affordability by adding an additional 15 year extended use period. The IRS is able to enforce the initial 15 year compliance period through the threat of credit recapture, which requires repayment of tax credits with interest and additional penalties. After year 15, the IRS cannot perform credit recapture and it becomes the responsibility of the designated local agency or HFA to enforce the additional 15 year restriction. While the extended use period has been an important tool for ensuring that projects remain affordable, it does not guarantee affordability past the initial 15 year compliance period. Property owners are presented with the opportunity in year 14 to "opt-out" of the program by requesting that the state find a qualified buyer through the Qualified Contract Request process. If the state does not find a qualified buyer by the end of year 15, the owner may be released from all rent restrictions and land covenants. Thus despite the additional 15 year extended use period, the initial 15 year mark is a "critical decision point in the life of these projects as the first opportunity for financial restructuring, change in ownership, and conversion to market rate" (Lew-Hailer, 2007: 10).

The year 15 issue is not only important in terms of preservation of LIHTC affordable housing at risk of losing rent restrictions, but also in terms of preservation of LIHTC properties that do not have sufficient funds for maintenance or continued operation. As Schwartz (2010: 97) succinctly summarizes the problem, "affordability protections of even the longest duration will mean little if resources are not available to purchase the property from the original owners and to invest in its continued physical viability." By year 15, properties will be in need of improvements ranging from new appliances to a new roof and many LIHTC projects lack any reserves to address these maintenance issues (Ibid). Physical deterioration of properties may also lead to increased vacancies, which in turn further decreases available funds for improvements (National Housing Law Project, 2009). In order to address these issues, LIHTC projects must be recapitalized to provide funding for improvements and ensure continued operation. While many developers may be able to refinance their mortgages, many other LIHTC properties do not have sufficient income to allow refinance and developers must look for alternative sources for recapitalization (Schwartz, 2010). A number of sources recognize the use of new LIHTCs, primarily 4% credits, as an option for recapitalizing and preserving existing LIHTC housing (Schwartz, 2010; HousingPolicy.org, 2010).

One of the key aspects to balancing both the expansion and preservation of Louisiana's affordable housing stock will be to diversify the ways in which the stock maintains its affordability both through financing and land tenure alternatives that can reduce compliance costs. In undertaking this review at such a critical moment, Louisiana has the opportunity to be innovative in the maintenance and disposition process of LIHTC properties. The LFHA should examine ways to "farm out" compliance monitoring to other state and local institutions, and integrate the participation of Community Land Trusts [CLTs] into the disposition and preservation framework for LIHTC properties that are coming to the end of their initial 15 year compliance period as a way to preserve more 9% tax credits for recapitalization.

PART I: Profile of Louisiana Projects Completing their Compliance Period between 2012 and 2022

1. Description of Database and Methodology
2. Summary of all LIHTC Projects
    a. Statewide
    b. By Parish
    c. By Metropolitan Statistical Area [MSA]
    d. By USDA Urban and Rural Codes
3. Summary of Projects Reaching the End of their Initial 15 year Compliance Period between 2012 and 2022:
    a. 0-2 years
    b. 3-6 years
    c. 7-10 years
4. Summary of Louisiana's LIHTC Project Trends

Description of Database and Methodology

One of the principal goals for UNO-PLUS was to construct a dataset that reflects all LIHTC projects placed in service in Louisiana between January 1987 and December 2010. This required the integration of multiple datasets, as well as continued support from LHFA staff in determining what information would best serve their future data needs.

Accessing the Data

Two separate datasets contributed nearly all of the information gathered to create the LA LIHTC project dataset for LHFA. UNO-PLUS obtained the majority of information within the database regarding projects PIS between 1987 and 2007 from the HUD LIHTC User database, which can be accessed from their webpage: http://lihtc.huduser.org. UNO-PLUS obtained information regarding projects PIS between 2008 and 2010 from LHFA's 2010 Pipeline reports and staff assistance. For the purpose of simplicity, each dataset, its contribution to this project, and its limitations is explained briefly here.

1) HUD LIHTC User database (1987-2007)

HUD LIHTC Database, created by HUD and available to the public since 1997, contains information on nearly 31,251 projects and over 1,843,000 housing units placed in service between 1987 and 2007. It is the only complete national source of information on the size, unit mix, and location of individual projects. Currently, data are available for projects placed in service through 2007. Project information is available by single state or multiple states, and can be filtered by a number of relevant variables. Variables utilized in the construction of our database include:

1. HUD ID number
2. Project name
3. Project address
4. Project city
5. Project state
6. Project zip code
7. 2000 Census County Code
8. 2000 Census MSA Code
9. 2000 Census tract number
10. Total number of units
11. Total low-income units
12. Placed-in-service year
13. Credit allocation year
14. Construction type (new, rehab, or both)
15. Sponsor (profit, non-profit)
16. Credit type (70%, 30%, mixed)
17. HOME fund recipients (yes/no)

Description of Database and Methodology (continued)

2) LFHA 2010 Pipeline report data and LHFA Staff Assistance

LHFA's 2010 Pipeline reports provided essential information on Louisiana's LIHTC projects PIS between the years 2004 and 2010. With this information it was possible to cross-check project information in the HUD User database for projects PIS between years 2004 and 2007, as well as allow for a more up-to-date dataset of LIHTC projects throughout the state of Louisiana.

LHFA staff was integral in providing additional information absent in the 2010 Pipeline reports and other missing information within the HUD User database. Staff also assisted UNO-PLUS in deciphering comparative variables between the HUD dataset and Pipeline report information, specifically regarding construction type, unit count, and PIS information.

At present, LHFA is investing in a centralized data management process to replace the current process, which involves paper filing each project individually. This will assist in remedying many of the limitations with their current data management process. The principal limitation of the 2010 Pipeline report data was a general lack of sponsor information and other project information that is available in the HUD User database. It is recommended that this missing information be included in the compilation of the new centralized data management process. For more information on missing data, how the data were combined, and other sources of information that aided in creating the LA LIHTC dataset, see Appendix A of this report.

Summary of all LIHTC Projects Reaching the End of their Initial 15 year Compliance Period between 2012 and 2022: Statewide

Within the state of Louisiana, 764 LIHTC projects have been PIS between 1987 and 2010, containing a total of 41,832 units. Three hundred and four (304) of these LIHTC projects, totaling 14,605 units, will reach the end of their initial 15 year compliance period in the next ten years (2012-2022).

Approximately 94.3% of these units, representing nearly a third of *all* units placed-in-service since 1987, currently provide affordable housing to residents throughout the state of Louisiana. The significant service these units are providing prompts the need to begin both understanding and preparing for the preservation of this stock of affordable housing.

This summary represents the first step to understanding the problem and specific circumstances the State of Louisiana will find itself in the upcoming years, regarding expiring tax credit requirements and the potential loss of affordable housing units as developers may opt to convert affordable rents in their projects to market rate rents. It provides a basic knowledge that will aid in better understanding the distribution of LIHTC projects throughout the state, as well as providing information on general project characteristics. This is meant to alert local housing officials, housing advocates, and state LHFA agents, as well as anyone interested in preserving Louisiana's existing stock of affordable LIHTC housing, to specific geographic areas having a higher number of LIHTC projects reaching the end of their initial 15 year compliance period, and of the likely loss of affordable housing in specific areas, as well as to equip the state with a basic knowledge of their LIHTC stock.

As demonstrated in **Table 1**, LIHTC projects reaching year 15 in the next ten years more often provide affordable rents in all units of a project, are more often sponsored by for-profit enterprises (59.9%), and are more likely to utilize the 70% or 9% tax credits to aid in acquiring equity for a project's development. In addition, developers frequently initiate new project construction (69.4%), projects are generally concentrated within metropolitan areas (67.5%), and the use of HOME funds to supplement financing project construction is relatively uncommon (8.9%).

Table 1. Summary of Louisiana's LIHTC Projects Reaching the End of their Initial 15 year Compliance Period within the next 10 years (2012-2022)

	#	% of Total
Projects	304	100.0%
Units		
Total Units	14,605	100.0%
Low Income	13,772	94.3%
Sponsor Type		
For-Profit	182	59.9%
Non-Profit	120	39.5%
*Credit Type		
70%	151	49.7%
30%	78	25.7%
Both	73	24.0%
Construction		
Rehab	90	29.6%
New	211	69.4%
Both	2	0.7%
Project with Home Funds	27	8.9%
USDA project		
Metro	205	67.4%
Non-metro	98	32.2%
Rural	1	0.3%

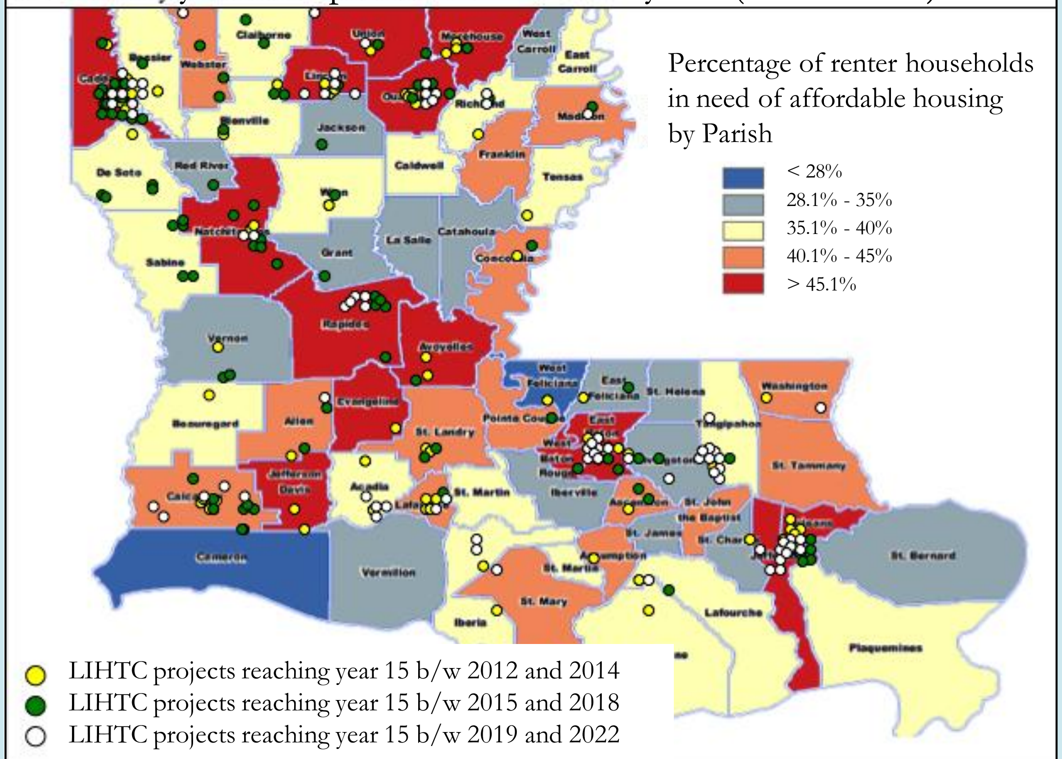
*Note: Information was not available for 2 projects

Summary of all LIHTC Projects: By Parish

UNO-PLUS utilized LHFA's housing affordability maps, obtained from their most recent assessment of housing risk (2010), in conjunction with data available from the LA LIHTC dataset to illustrate the distribution of LIHTC projects by parish, while also showing housing affordability needs and the period at which these projects will reach the end of their initial 15 year compliance period. Projects are color-coded based on the time period they are expected to reach year 15 and parishes are color-coded based on their affordability needs.

Figure 1.

Distribution of LIHTC Projects Reaching the End of their Initial 15 year Compliance Period in 10 years (2012 - 2022)



Source: LHFA 2010 Housing Needs Assessment Report

As illustrated in **Figure 1**, the pattern of LIHTC construction is consistent with higher housing affordability needs throughout the state. More specifically, projects are generally concentrated in areas having percentages of renter households in need of affordable housing greater than 40.1%, which include Caddo, Calcasieu, East Baton Rouge, Natchitoches, Orleans, and Ouachita parish. These areas have both a high need for affordable housing and a significant potential loss due to the 15 year issue. Local officials and housing advocates in these areas must be aware of their LIHTC stock in order to better prepare for the challenge of preserving it. Otherwise they are likely to see a rise in housing affordability needs within their parish in the future. Appendix C summarizes in more detail all LIHTC projects set to expire by parish for the entire ten year study period and for each successive wave of expirations expected within: 0-2 yrs, 3-6 yrs, and 7-10 yrs. These time frames were chosen based on the availability of LIHTC data from the HUD User database and suggestions made by LHFA staff.

Summary of all LIHTC Projects: By MSA

UNO-PLUS analyzed LIHTC projects in the ten year study period by both MSA and the United States Department of Agriculture's [USDA] urban/rural codes to provide a geographical context for affordable units in Louisiana.

Regarding projects located within and outside Louisiana's MSAs, nearly 68% of affordable housing units approaching the end of their initial 15 year compliance period in the next ten years are located *within* a Louisiana MSA. As illustrated by **Table 2**, 206 projects, or over two thirds of all projects are located within a MSA. These projects provide 10,129 low-income units and represent 24.2% of the state's total low-income units PIS from between 1986 and 2010.

Table 2. Summary of LIHTC Projects Reaching the End of their Initial Compliance Period within and outisde Louisiana's MSAs (2012 - 2022)

	Projects		Units			
			Total		Low-Income	
2000 Census MSA	#	%	#	%	#	%
Alexandria	12	3.9%	400	2.7%	380	2.8%
Baton Rouge	32	10.5%	2,061	14.1%	1,855	13.5%
Houma	4	1.3%	179	1.2%	179	1.3%
Lafayette	20	6.6%	872	8.0%	778	5.6%
Lake Charles	21	6.9%	1,132	7.8%	1,132	8.2%
Monroe	22	7.2%	808	5.5%	784	5.7%
New Orleans	41	13.5%	2,706	18.5%	2,362	17.2%
Shreveport/Bossier City	54	17.8%	2,732	18.7%	2,659	19.3%
Subtotal:	206	67.8%	10,890	74.56%	10,129	73.5%
Outside 2000 Census MSA's	98	32.2%	3,715	25.4%	3,643	26.5%
Total:	304	100.0%	14,605	100.0%	13,772	100.0%

* Note HUD LIHTC data utilizes 2000 Census data for MSA designations

In terms of specific MSAs within Louisiana, as illustrated by **Table 2,** Shreveport/Bossier City contains the most significant concentration of LIHTC projects (17.8%) in the ten year UNO-PLUS study period, despite being only the third most populated MSA within Louisiana. New Orleans, the largest MSA within the state, has the second largest percentage of LIHTC projects, which provide 2,362 low-income units. Interestingly, Houma has the lowest total number of projects (4) and number of low-income units (179) despite the fact that it is the fifth most populated MSA within the state. Houma's low-income units represent 1.3 % of all low-income units within the UNO-PLUS ten year study period.

Regarding those LIHTC projects located *outside* Louisiana's MSAs in the UNO-PLUS ten year study period, they combine an equal a total of 98 projects that provide 3,715 low-income units. These projects typically provide less units than those projects within MSAs. This is inferred by the significantly lower percentage of total units compared to the percentage of total projects for areas outside MSAs. Also, from a comparison of the total population located within and outside Louisiana's MSAs, UNO-PLUS determined that both LIHTC projects and the number of low-income units are spread throughout the state of Louisiana proportionally when considering population size and density.

Summary of all LIHTC Projects: By USDA Urban/Rural Codes

Table 3. Summary of USDA Designations for Projects Reaching the End of their Initial 15 year Compliance Period in 0 to 2 yrs (2012 - 2014), 3 to 6 yrs (2015 - 2018), 7 to 10 yrs (2019 - 2022), and 0 to 10 yrs (2012-2022)

2003 USDA Description of Urban/Rural designation	USDA Code	2012 - 2014		2015 - 2018		2019 - 2022		2012 - 2022	
		#	% of Total	#	% of Total	#	% of Total	#	% of Total
METRO									
County in metro area of…									
1 million population or more	1	13	15.5%	10	9.5%	18	15.7%	41	13.5%
250,000 to 1 million population	2	19	22.6%	33	31.4%	38	33.0%	90	29.6%
fewer than 250,000 population	3	17	20.2%	27	25.7%	30	26.1%	74	24.3%
	Subtotal:	49	58.3%	70	66.7%	86	74.8%	205	67.4%
NONMETRO									
Nonmetro county with urban population of...									
20,000 or more, adjacent to a metro area	4	14	16.7%	7	6.7%	19	16.5%	40	13.2%
20,000 or more, not adjacent to a metro area	5	0	0.0%	0	0.0%	0	0.0%	0	0.0%
2,500-19,999, adjacent to a metro area	6	19	22.6%	24	22.9%	9	7.8%	52	17.1%
2,500-19,999, not adjacent to a metro area	7	1	1.2%	4	3.8%	1	0.9%	6	2.0%
	Subtotal:	34	40.5%	35	33.3%	29	25.2%	98	32.2%
RURAL									
Nonmetro county completely rural or less than…									
2,500 urban population, adj. to metro area	8	0	0.0%	0	0.0%	0	0.0%	0	0.0%
2,500 urban population, not adj. to metro	9	1	1.2%	0	0.0%	0	0.0%	1	0.3%
	Subtotal:	1	1.2%	0	0.0%	0	0.0%	1	0.3%
	TOTAL	84	100.0%	105	100.0%	115	100.0%	304	100.0%

To better understand distribution of LIHTC project in relation to population and density, UNO-PLUS utilized the USDA urban/rural designation codes to classify LIHTC projects in the ten year UNO-PLUS study period into three categories, which were termed metro, non-metro, and rural. This aided is establishing a simplified picture of Louisiana's LIHTC urban/rural geographic distribution. These data, as illustrated in **Table 3**, show that only one LIHTC project is located in an area categorized as 'rural,' reiterating earlier findings relative to Louisiana's MSAs. Meanwhile, metro and non-metro areas contain 99.6% of all LIHTC projects in the UNO-PLUS ten year study period. Most of Louisiana's projects (67.4%) are found in a metro area, or a USDA classification of 1, 2 or 3. Within this metro category, as depicted in **Table 3**, a trend is evident wherein the percentage of LIHTC developments in metro areas consistently increases in each successive time period while non-metro areas' share of projects consistently decreases, suggesting more recent LIHTC projects are more likely to be developed in denser urban areas. Regarding the non-metro category, there is a fairly large contingent of projects within the USDA code range 4 through 7. These are classified as projects located in non-metro areas and represent 32.2% of Louisiana's LIHTC projects within the UNO-PLU ten year study period.

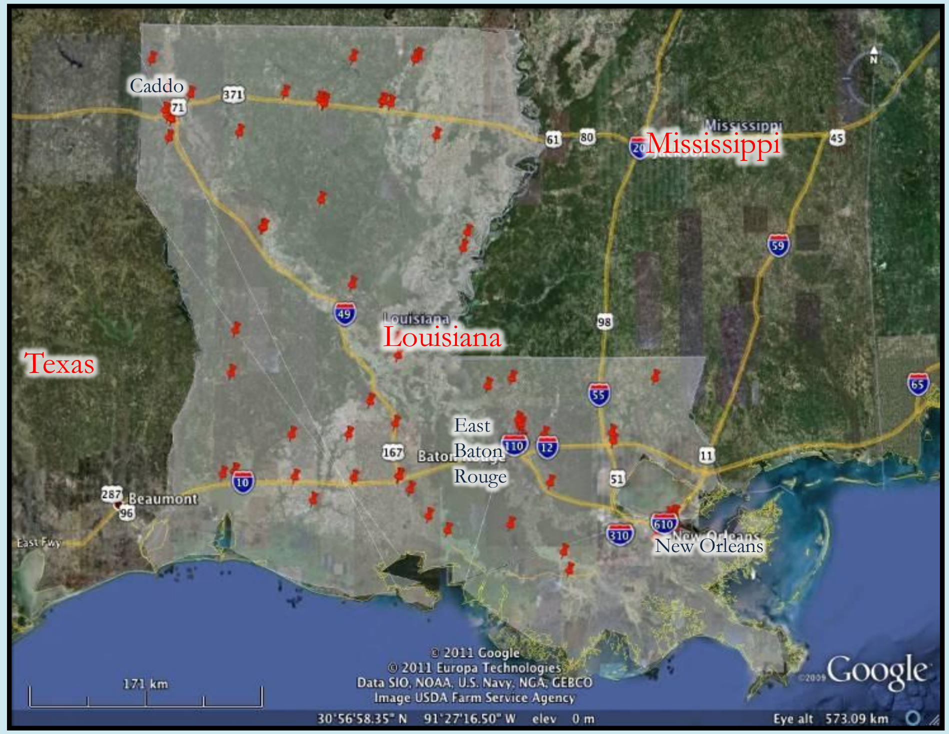
Summary of Projects Reaching year 15 in 0 to 2 years (2012-2014)

To provide a higher level of detail and to assess multiple time frames and relevant strategies towards preserving affordable housing, UNO-PLUS divided the ten year study period into three consecutive waves: 0 to 2 years, 3 to 6 years, and 7 to 10 years.

From this analysis, as shown in **Figure 2**, UNO-PLUS found that those LIHTC projects reaching the end of their initial 15 year compliance period between the years 2012 and 2014 are scattered throughout the state, with significant concentrations in Orleans (11 projects), Caddo (7 projects), and East Baton Rouge (6 projects) parishes, all of which have a substantial need for affordable housing (LHFA, 2010). As depicted in **Table 4**, all other parishes have five or less projects coming to term during this time period. Also, the majority of parishes (89%) have only one or two projects reaching the end of their compliance period between 2012 and 2014.

In addition, the number of projects expected to come to term each year—2012, 2013, and 2014—is consistent due to the evenly distributed PIS dates among all 84 projects. In 2012, 32 projects (38%) will reach the end of their initial 15 year compliance period. In 2013, 24 projects (29%) will follow suite. Finally in 2014, the remaining 28 projects (33%) may potentially be converted from affordable units to market rate units.

Figure 2. Map of LA LIHTC projects expiring in 0 to 2 years



*Source: Google Maps (2011).

Summary of Projects Reaching year 15 in 0 to 2 years (2012-2014) (continued)

Data regarding this first wave of projects faced with the year 15 issue is illustrated in more detail in **Table 4**. On a positive note, non-profit sponsorship is the most common (61%) within this first wave of projects facing the 15 year issue. This is positive feature because the literature suggests that non-profit sponsors are more likely to preserve affordable units due to their social mission to safeguard existing affordable units despite the loss of future profit if converted to market rate (Lew-Hailer, 2007; Schwartz and Melendez, 2008).

Not surprisingly, due to the higher rate of new construction (58%), most of the projects (65%) in this period were financed with the 70% or 9% tax credits. Also, the absence of projects receiving HOME funds, which provide additional affordability restrictions, represent a potential missed opportunity to reduce the risk of projects converting to market rate rents after reaching year 15 of their initial compliance period (Schwartz and Melendez, 2008). However, utilizing alternate subsidy programs to support the long term affordability of LIHTC projects may not be a sustainable or efficient use of the state's limited resources.

Table 4. Summary of Projects Reaching the End of their Initial 15 year Compliance Period in 0 to 2 years (2012 - 2014)

Projects per Parish

2000 Parish Name	#	% of Total
Orleans	11	13.1%
Caddo	7	8.3%
East Baton Rouge	6	7.1%
Calcasieu	5	6.0%
Lincoln	5	6.0%
Lafayette	4	4.8%
Ouachita	4	4.8%
Morehouse	3	3.6%
Natchitoches	3	3.6%
Acadia	2	2.4%
Avoyelles	2	2.4%
Bienville	2	2.4%
Iberia	2	2.4%
Jefferson Davis	2	2.4%
St. Landry	2	2.4%
Tangipahoa	2	2.4%
Allen	1	1.2%
Acension	1	1.2%
Assumption	1	1.2%
Beauregard	1	1.2%
Bossier	1	1.2%
Concordia	1	1.2%
De Soto	1	1.2%
East Feliciana	1	1.2%
Evangeline	1	1.2%
Jefferson	1	1.2%
Lafourche	1	1.2%
Livingston	1	1.2%
Rapides	1	1.2%
Richland	1	1.2%
St. Charles	1	1.2%
Tensas	1	1.2%
Terrebonne	1	1.2%
Union	1	1.2%
Vernon	1	1.2%
Washington	1	1.2%
West Feliciana	1	1.2%
Winn	1	1.2%
Total:	84	100.0%

Units

	Total	Low Income
(#)	4,553	4,553
(%)	100.0%	100.0%

Sponsor

	For Profit	Non Profit
(#)	33	51
(%)	39.0%	61.0%

Credit Type

	30%	70%	Mixed
(#)	10	55	17
(%)	12.0%	65.0%	20.0%

Note: information was not available for 2 projects

Construction Type

	Rehab	New	Mixed
(#)	33	49	2
(%)	39.0%	58.0%	2.0%

HOME Funds

	Yes	No
(#)	0	84
(%)	0.0%	100.0%

USDA Codes

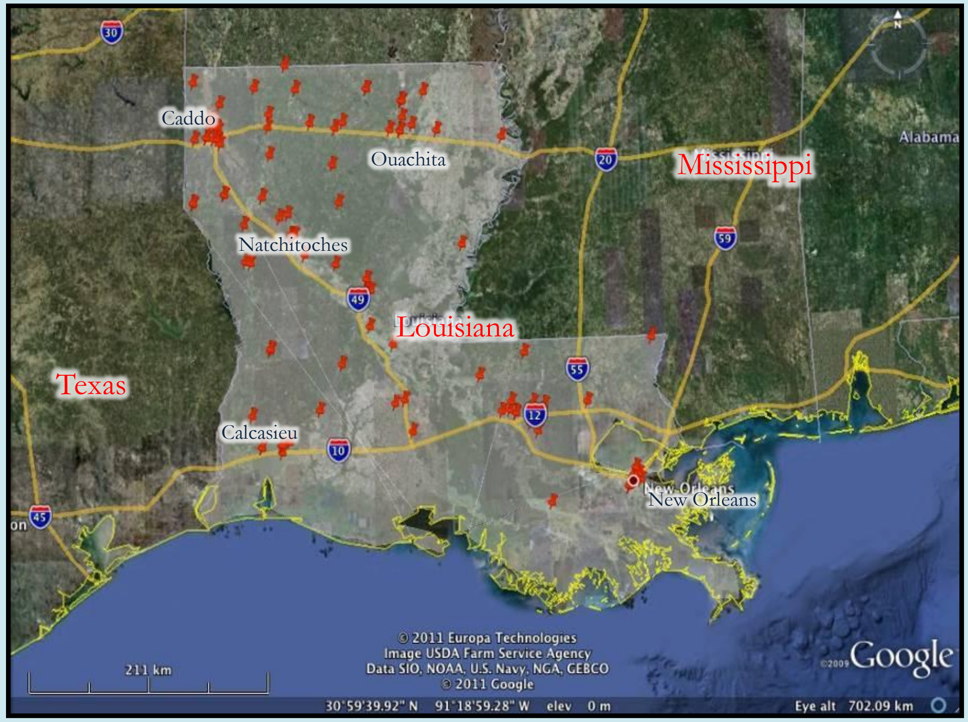
	Metro	Nonmetro	Rural
(#)	49	34	1
(%)	58.3%	40.5%	1.2%

Summary of Projects Reaching year 15 in 3 to 6 years (2015-2018)

With regard to the second wave of LIHTC projects in the ten year UNO-PLUS study period, UNO-PLUS found that those LIHTC projects reaching the end of their initial 15 year compliance period between the years 2015 and 2018 are highly concentrated in just a few parishes: Caddo (17 projects), Ouachita (9 projects), Calcasieu (8 projects), and Natchitoches Parishes (8 projects). The distribution of projects in this second wave is illustrated in **Figure 3.** Together these parishes contain a total of 42 projects that collectively make up 40% of all projects in this wave. All other parishes have less than five projects reaching year 15, which is depicted in **Table 5**. Of the parishes having very few LIHTC projects in this wave, 69% have a total of two or less projects. Only 36 of the state's 64 parishes have projects in this wave, which suggests a trend that over time projects are becoming more concentrated in a few parishes throughout the state.

In summary, the state stands to lose potentially 4,743 units between 2015 and 2018, of which 4,682 are currently affordable to families with low-incomes. The most significant portion (nearly 3/4) of projects in this period expire in 2016 (73% or 77 total projects). Only 15 projects (14%) reach completion in 2017, and the remaining 13 projects (12%) reach completion in 2018.

Figure 3. Map of LA LIHTC projects expiring in 3 to 6 years



*Source: Google Maps (2011).

Summary of Projects Reaching year 15 in 3 to 6 years (2015 – 2018) (continued)

Unlike the first wave of projects, this second wave of projects facing the year 15 issue has a nearly even split between non-profit sponsorship (46.7%) and for-profit sponsorship (53.3%). This implies that within this wave, it may be more challenging to preserve project affordability upon year 15.

As evidenced in **Table 5,** approximately half of the projects in this wave began with new construction (53.3%), were financed with a mix of 30% or 70% tax credits (53.3%), had for-profit sponsorship (53.3%) and, for the most part, did not utilize HOME funds as an additional source of project funds (97.1%).

Table 5. Summary of Projects Reaching the End of their Initial 15 year Compliance Period in 3 to 6 years (2015 - 2018)

Projects per Parish

2000 Parish Name	#	% of Total
Caddo	17	16.2%
Ouachita	9	8.6%
Calcasieu	8	7.6%
Natchitoches	8	7.6%
Orleans	5	4.8%
Jefferson	5	4.8%
Rapides	5	4.8%
East Baton Rouge	4	3.8%
De Soto	4	3.8%
Sabine	3	2.9%
Webster	3	2.9%
Lincoln	2	1.9%
Bienville	2	1.9%
Claiborne	2	1.9%
St. Landry	2	1.9%
Allen	2	1.9%
Acension	2	1.9%
Livingston	2	1.9%
Union	2	1.9%
Vernon	2	1.9%
Lafayette	1	1.0%
Morehouse	1	1.0%
Avoyelles	1	1.0%
Tangipahoa	1	1.0%
Grant	1	1.0%
Jackson	1	1.0%
Bossier	1	1.0%
Concordia	1	1.0%
East Feliciana	1	1.0%
Madison	1	1.0%
Lafourche	1	1.0%
Richland	1	1.0%
West Baton Rouge	1	1.0%
Pointe Coupee	1	1.0%
Red River	1	1.0%
Winn	1	1.0%
Total:	105	100.0%

Units

	Total	Low Income
(#)	4,743	4,682
(%)	100.0%	98.7%

Sponsor Type

	For	Non Profit
(#)	56	49
(%)	53.3%	46.7%

Credit Type

	30%	70%	Mixed
(#)	7	42	56
(%)	6.7%	40.0%	53.3%

Construction Type

	Rehab	New	Mixed
(#)	49	56	0
(%)	46.7%	53.3%	0.0%

HOME Funds

	Yes	No
(#)	3	102
(%)	2.9%	97.1%

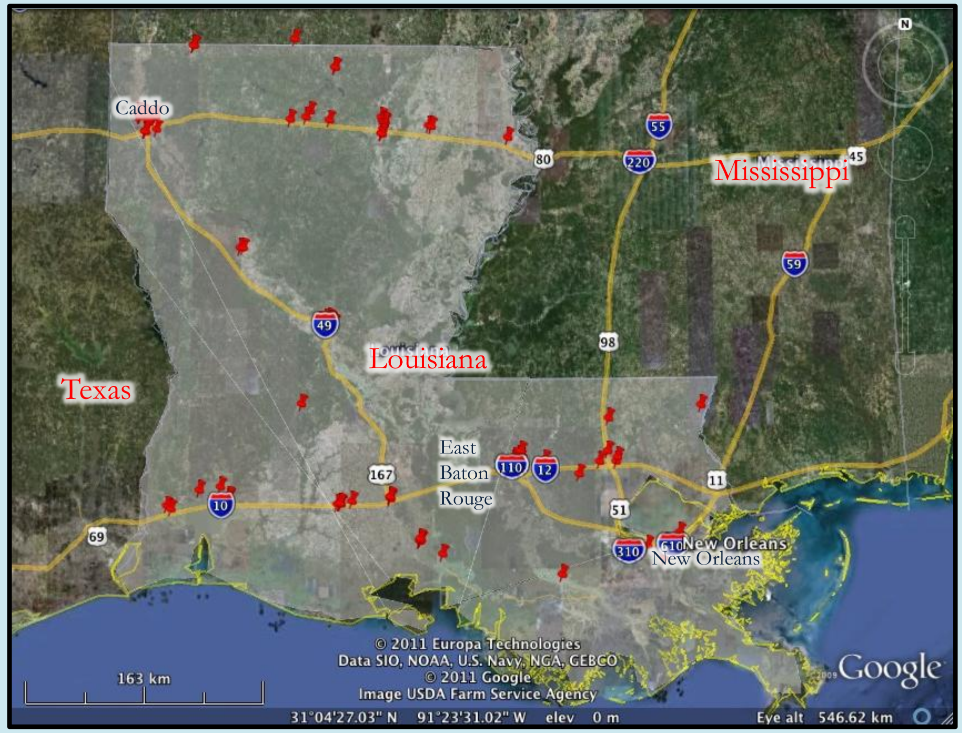
USDA Codes

	Metro	Nonmetro	Rural
(#)	70	35	0
(%)	67%	33%	0%

Summary of Projects Reaching year 15 in 7 to 10 years (2019-2022)

Much like previous time periods, UNO-PLUS found that those LIHTC projects reaching their 15 year compliance period between 2019 and 2022 are concentrated in just a few parishes. Caddo parish has the largest percentage of projects approaching year 15 with 20 projects (17.4%). Caddo is a growing parish and one identified as having an acute need for affordable housing. Orleans and East Baton Rouge Parishes have the second and third largest number of projects with 17.4% and 11.3% respectively. As evidenced in **Figure 4**, these projects are in close proximity to Louisiana's transportation network. Although many of the projects are focused in parishes with a recognized need, only 22 parishes have projects set to expire in this time period. As such, 66% of the state's parishes do not have LIHTC projects set to expire between 2019-2022, further establishing a trend that projects are becoming more concentrated within a few select parishes. This raises a serious concern for statewide policy initiatives, as fewer parishes will have a stronger vested interest in preserving LIHTC affordability.

Figure 4. Map of LA LIHTC projects expiring in 7 to 10 years



*Source: Google Maps (2011).

The analysis of this third wave of LIHTC projects reflects and builds upon those trends evident in previous waves within the UNO-PLUS ten year study period. Within this final wave a significant percentage of projects had for-profit sponsorship (80.9%). This suggests a trend over the ten year study period of decreasing non-profit sponsorship in LIHTC projects, which increases their potential risk of conversion to mark rate rents and reinforces the need for increased awareness of the year 15 issue.

Summary of Projects Reaching year 15 in 7 to 10 years (2019-2022) (continued)

A comparison of **Tables 4, 5,** and **6** aided in establishing similar trends. First, the percentage of projects using HOME funds in the three waves of LIHTC projects reflects a notable increase over the ten year study period. Next, while previous waves had projects utilizing a mix of LIHTC credits as funding sources, the use of 9% credits financed 99 projects (86.1%) within this third wave. This suggests that utilizing a mix of credits is becoming less common within the state as developers are relying more on fixed 9% credit sources. Based on the literature, this could be attributable to the high volume of new construction (92.2%) within this wave or to the fact that the majority of projects are developed through for-profit sponsorships (80.9%) who often favor new construction over rehabilitation and the larger equity gained from the use of the 9% credit (Lew-Hailer, 2007; Housing Development Center, 2006).

In addition and evidenced by a comparison of units in **Tables 6, 5,** and **4**, projects sponsors are less likely to offer all of their units to low-income residents within this third wave. Finally, with 86 metro projects (74.8%) and 28 non-metro projects (25.2%), the distribution of projects in this wave suggest that more recent projects using LIHTCs are likely to be focused in larger parishes experiencing both growth and increased affordable housing needs.

Table 6. Summary of Projects Reaching the End of their Initial 15 year Compliance Period in 7 to 10 years (2019 - 2022)

Projects per Parish

2000 Parish Name	#	% of Total
Caddo	20	13.9%
Orleans	16	17.4%
East Baton Rouge	13	11.3%
Ouachita	9	7.8%
Calcasieu	8	7.0%
Acadia	6	5.2%
Rapides	6	5.2%
Iberia	5	4.3%
Lincoln	4	3.5%
Tangipahoa	4	3.5%
Lafayette	3	2.6%
Bossier	3	2.6%
Union	3	2.6%
Natchitoches	2	1.7%
Allen	2	1.7%
Jefferson	2	1.7%
Livingston	2	1.7%
Richland	2	1.7%
Webster	2	1.7%
Lafourche	1	0.9%
Washington	1	0.9%
Madison	1	0.9%
Total:	115	100.0%

Assumptions:

1) 100% affordable units on all projects not using HOME Funds that had missing data for the number of affordable units in the project– PPLN and HUD reports.
2) On projects that used HOME funds and were missing data on the number of affordable units, we assume 40% of units were affordable. This 40% is based on 40% of units are affordable to those families below 60% of the area median income.
3) Information that was still not available is noted in calculations and appendix

Units

	Total	Low Income
(#)	5,309	4,537
(%)	100.0%	85.5%

Sponsor Type

	Profit	Non Profit
(#)	93	20
(%)	80.9%	17.4%

2 project sponsorships were unknown

Credit Type

	30%	70%	Mixed
(#)	16	99	0
(%)	13.9%	86.1%	0.0%

Construction Type

	Rehab	New	Mixed
(#)	8	106	0
(%)	7.0%	92.2%	0.0%

1 project construction type unkown

HOME Funds

	Yes	No
(#)	24	91
(%)	20.9%	79.1%

USDA Codes

	Metro	Nonmetro	Rural
(#)	86	29	0
(%)	74.8%	25.2%	0.0%

Summary of Louisiana's LIHTC Project Trends

In summary, the UNO-PLUS analysis of Louisiana's existing stock of LIHTC projects sheds light on various trends that can aid in preparing for each successive wave of projects reaching the end of their initial 15 year compliance period in the next ten years, as well as inform more innovative approaches aiming to preserve the future stock of Louisiana's LIHTC projects through the application of preservation tools discussed in Part II of this report.

Those LIHTC projects analyzed as part of the UNO-PLUS ten year study period, which are reaching the end of their initial compliance period in the next ten years, provide a substantial amount of affordable housing units to Louisiana residents, as nearly 95% of all units supply affordable housing to families having low-incomes. As such, the year 15 issue represents a significant risk to Louisiana's existing LIHTC stock of affordable housing. From the LA LIHTC dataset and a review of the literature UNO-PLUS identified four variables that can aid in identifying projects at risk of losing their low-income units in Louisiana. They include:

(1) The **social mission of nonprofits** as the general partner. Non-profits are more likely to preserve affordability than for-profit project sponsors (CHPC). With the trend in Louisiana LIHTC projects moving toward more for-profit sponsors, a larger percentage of low-income units will be at risk to lose their affordability in year 15.

(2) Also, **additional affordability covenants** can play a role in extending affordability periods (Lew-Hailer, 2007). HOME funds qualify as an additional affordability covenant, but their use in LIHTC projects is not significant until projects reaching the end of their compliance period in 2019-2022. During this period HOME funds are utilized in almost 21% of the projects. An increased use of HOME funds represents one opportunity to improve the preservation of future affordable LIHTC units.

(3) **Construction type** is also considered a risk factor. Older rehabilitation projects in Louisiana are more at-risk than new construction because they are more at risk of being under-capitalized and/or nonconforming to the state's upgraded building codes. Both under-capitalization and nonconformity are identified as risk factors for the preservation of affordable units.

(4) Also, though less applicable to the current state of Louisiana's stock, projects having **affordable units in strong markets** are more likely to convert them to condominiums or high rents units upon year 15 (Lew-Hailer, 2007).

Finally, while the literature aided in better understanding the risks involved with projects reaching the end of their initial 15 year compliance period, our analysis helped to create a clearer vision of the current state of LIHTC projects within Louisiana. From this analysis it became clear that areas in need of affordable housing were often located near or within Louisiana's MSAs. Over the ten year study period our analysis identified a general decrease in the number of affordable units per development, the occurrence of non-profit sponsorship, and the use of creative financing, as well as project distribution throughout the state. On the other hand, our analysis recognized general trends regarding increases in new construction projects vs. rehab and acquisition, in project concentration within MSAs, and in the use of HOME funds. Understanding these trends and recognizing that the 15 year issue is a significant problem Louisiana will face in the next ten years is the first step to identifying solutions that will provide for the well-being of the state. These findings can and should be built upon and strengthened through further analysis and through the application of innovative tools described in Part II of this report.

PART II: Review of National Practices

1. Background on Qualified Allocation Plan [QAP] Mechanisms
2. Description of Methodology
3. Analysis of QAP Point Mechanisms
4. Tenant Notifications and Grace Periods
5. Preservation Set-Aside Evaluation
6. Recommendations
7. Conclusions

Background on Qualified Allocation Plan [QAP] Mechanisms

The Qualified Allocation Plan [QAP] is the primary document used by HFAs to determine which housing developments receive tax credits during an allocation period. This vital document for the prioritization of affordable housing throughout the state also contains each state's priorities for certain types of developments, including the preservation of affordability when developments reach the end of their initial 15 year compliance period. Due to the growing concern about the loss of affordable units to market rate conversion around the country, QAPs reflect a variety of tools for the preservation of affordability. The increasing diversity of tools in the QAP to address the year 15 issue ranges from extending the length of committed affordability from the project sponsor, to protecting or preventing displacement of tenants, to setting aside portions of state tax credit allocations for preservation. This section reviews national practices in preservation first by providing an overview of the principal mechanisms used in states across the country. Secondly, we condense our findings based on a comprehensive review of 50 state QAPs and conclude by recommending some potential tools that the LHFA can adopt in their future QAP revisions.

The following pages contain comparisons of preservation mechanisms found within QAPs. The broad mechanisms reviewed include waivers of qualified contracts, extended affordability periods, "at-risk" point allocations, and other mechanisms such as tenant notifications and affordability grace periods. This section begins with an elaboration on several key mechanisms that come up in the tables and figures throughout the remainder of the report. The first two mechanisms reviewed, waivers of qualified contracts and extended affordability periods, are long-term methods for dealing with affordability and the year 15 issue from the beginning of a project's compliance period. These methods do not specifically address the potential recapitalization needs of a project at year 15 or short-term threats to affordability. The use of "at-risk" point allocations and preservation set-asides are both intended as means of dealing with the short-term threats to affordability by directly confronting the issue of recapitalization. Therefore, it is important to understand the importance of both the short-term and long-term means of dealing with affordability in the prioritization of preservation in the QAP.

Waivers of Qualified Contracts

Waivers of qualified contracts (waivers of QC) are mechanisms that allow HFAs to ensure affordability beyond year 15 by barring the disposition of the LIHTC units to market rate. This essentially means that at year 15, the owner waives the right to find a qualified buyer, as stipulated in the IRS code, for the LIHTC property. While ensuring affordability beyond year 15, a waiver does not address the recapitalization of a development should it be needed. Each HFA, or other designated local agency, is responsible for enforcing the terms of the waiver; however, if a development requires recapitalization little can be done to preserve affordable units. Moreover, waivers of QC do not address the long-term issue of code compliance, as IRS guidelines only require compliance for the first 15 years of a development's lifespan. Although QAPs incentivize the waivers through point awards, not all projects will have owners who waive their rights to find a qualified buyer. Every QAP point is essentially weighted equally among the various criteria and LIHTC applicants may choose other point allocation priorities other than preservation.

Background on QAP Mechanisms (continued)

Extended Affordability Agreements

Another mechanism that deals with the longer-term LIHTC affordability concerns is what we call "extended affordability periods" [EAP]. This is different from the federally required extended use agreement [EUA], which holds owners of LIHTC properties to 30 years of affordability. Although federal IRS regulations increased the period of affordability to 30 years in 1989, EUAs did not sufficiently deal with the commitment of the project sponsor because of the year 15 issue and the Qualified Contract process. Investors and sponsors could still agree to sell the property when the initial 15 years ended. EAPs, on the other hand, are further prioritizations of affordability by state QAPs, usually beyond the baseline 30 year period and sometimes reaching as much as 60 year commitments. Moreover, many of the EAPs use other tools to strengthen the commitment to affordability.

One means of strengthening the EAP is to require a waiver of QC in conjunction with the extension of affordability. Hawaii, for instance, tiered the extension of affordability from 30-60 years, offering as much as 11% of the total QAP points for EAPs. At each of these levels of extended affordability, though, the owner was required to also waive the QC process. Colorado also use EAPs alongside the waivers of QC, with terms of affordability ranging up to 40 years, but with a total of nearly 30% of all QAP points dedicated to this mechanism (see **Table 7** for these percentages). Louisiana also uses an EAP mechanism and makes a waiver of QC a prerequisite for receiving points of up to 2% of all QAP points. Louisiana is one of the few states that gives points for an EAP that is less than the mandated 30 years. By requiring a waiver of QC combined with an affordability period of 25, 30, or 35 years; however, the mechanism in Louisiana ensures that a project sponsor cannot opt out of affordability for an extended period beyond the initial 15 years.

Another method of strengthening the EAP is to use land covenants to bind the property to a defined period of affordability regardless of the ownership structure. Land Use Restriction Agreements [LURAs] are one method of binding the property to certain affordability criteria over the length of compliance. Although this tool appears to offer a robust means of preserving affordability, we found little information on their use or effectiveness and therefore do not offer recommendations on their use in Louisiana.

Although EAPs and EUAs help to deal with extended affordability, neither tool solves inherent problems with the year 15 issue. Similar to the waiver of QC process, extending affordability beyond year 15 does not solve the problem of code compliance for the HFA. Without the threat of credit recapture, the HFA is the sole agency responsible for monitoring affordability and code compliance. Additionally, EAPs do not offer solutions to the problem of an investor who leaves the limited partnership - requiring payback of equity - or if the property needs rehabilitation that the sponsor cannot afford to pay. These short-term recapitalization needs partially result from the QC process built into the IRS regulations. Thus, EAPs offer a long-term means of prioritizing preservation, but the mechanism does not solve inherent preservation issues, nor does it deal with the cost of rehabilitation, recapitalization, and code compliance. The waiver of QC, EUA, and EAP go "a long way to ensure affordability" but they both fail to solve inherent issues with preservation and recapitalization that require short-term strategies for dealing with affordability at year 15 (Lew-Hailer, 2007: 43).

Background on QAP Mechanisms (continued)

"At-Risk" Point Allocations

The last of the three major mechanisms commonly found in state QAPs is dedicated QAP points for the preservation of at-risk properties. Properties that are nearing year 15 and are "at-risk" of losing affordability due to market or other conditions are considered eligible to qualify for QAP points towards recapitalization. Robust definitions of at-risk properties include a process for verifying the status of a property's risk by a third party legal opinion, as seen in California's QAP. Dedicating QAP points towards preservation recapitalization is a short-term method of prioritizing state recapitalization funds and can lead to the preservation of projects that could be converted to market rate. This mechanism is most often used with properties that either require substantial rehabilitation or need a buyout of the owner to maintain affordability. This mechanism, however, does not guarantee the recapitalization of all at-risk properties broadly across an entire state because preservation projects are put in same QAP process as new developments, which often get credits for other new amenities (such as energy efficiency) that could increase their QAP point totals.

The use of an "at-risk" point allocation is based solely on QAP prioritization – requiring a development plan that recapitalizes and preserves existing LIHTC units that are expiring soon (the time frame varies from state to state). One weakness of this mechanism is it puts existing developments in competition with new developments in the QAP point allocation system. As QAP points are weighted equally, this could hurt long-term affordability or detract from new developments depending on long list of priorities included in the QAP allocation process. The use of at-risk point incentives, if combined with LIHTC set-asides for preservation, can more effectively deal with preservation because there would be dedicated resources for recapitalization. Unfortunately, these tools for recapitalization do not necessarily cover all properties in the state because of the vast amount of units that will reach year 15 in the next ten years. This requires careful examination of preservation projects and the intentions of project sponsors throughout the state. Prioritization of set-asides will be explored more in next section on preservation set-aside evaluation.

Other Mechanisms

There are a variety of QAP point mechanisms pertaining to preservation and the year 15 issue that are unique to individual states and these are considered under the "other" mechanism category in **Table 7**. They range from tenant issues to ways of prioritizing creative financing (i.e. efficient use of 9% credits). These tools are included in the rankings for **Tables 8-10**. Tenant issues are discussed in greater detail on page 30. Some additional creative ways of dealing with preservation will be discussed in the recommendations section on innovative strategies that LHFA can employ to better preserve affordability and deal with the burdens of compliance monitoring.

Description of QAP Review Methodology

To understand the varied preservation point award mechanisms around the country UNO-PLUS collected all relevant information from each state's Qualified Allocation Plan [QAP]. We used the most recent QAPs or the most recent draft QAP available at the housing authorities' website (2008-2011 QAPs). The process resulted in a large collection of information and the creation of several data tables to condense for comprehension. Our intent was to rank how the states' preservation mechanisms compared against each other as a way of understanding the value of preservation in point award mechanisms. Comparing states against each other allows for a better understanding of how each state emphasizes preservation.

UNO-PLUS produced a database of every state's preservation language, evaluation, and scoring methods as well as preservation set-asides. Our team condensed the QAP language to common terms showing each state's preservation mechanisms, and if and how it addressed the 15 year issue with set-asides.

We ranked the states' relative strength of preservation mechanisms by using an indexing method. Using percentage of the preservation points available out of all possible points available in the 50 QAPs, we calculated the median value of preservation points offered, which was 3.975% of total QAP points. Using this median we assigned 1 point for any point mechanism that awards less than 3.975% of total points in the QAP and 2 points for any QAP awarding at or more than the median. A high ranking is the result of a mechanism or mechanisms at or over the median. A medium ranking is the result of two mechanisms under the median, and a low ranking is the result of one mechanism under the median. This indexing tool was useful to condense the large amount of QAP information into data tables that allow for comparative analysis of the state's preservation mechanisms. It is also allows us to easily compare the weight each QAP assigns to preservation while excluding all of the mechanisms not concerning preservation. If states had multiple point awards for different aspects of preservation we added up the assigned value of each.

Description of QAP Review Methodology (continued)

Importantly, our data collection did not include all preservation mechanisms used within a state. Many states have mechanisms to preserve affordability or refinance housing units that are not LIHTC properties, such as public housing units or other federally subsidized units of affordable housing. This project does not cover those units and only references mechanisms that pertain to LIHTC properties and the year 15 issue.

Analysis of QAP Point Mechanisms:

We list in **Table 7** each state that uses preservation point mechanisms, the mechanisms used, and the percentage of points awarded to preservation out of the total points available in the QAP. The mechanisms included in this table are not necessarily the exact language used in each state's QAP but rather broad terms that reflect their intended purpose. Categorizing the mechanisms by their broad intent was a useful way to condense the data and allow for a standardized comparison of the mechanisms. The percentages in this table are used to determine the median point award from the states' QAPs. This figure is used for ranking in **Tables 7-10**.

We show in **Table 7** that only three states waive the Qualified Contract [QC]: Georgia, Iowa, and Kansas. This table does not show the states that use the extension of affordability as a means to waive the qualified contract. It only shows those states that give points specifically to the waiver of the QC. Although it is not entirely clear which states prioritize waivers in the QAP, Lew-Hailer (2007) argues that they are often undesirable as the QC process highlights the inherent tensions that arise when the private sector is mobilized to provide a public good. Investors who are seeking profits through LIHTC investment are placed at odds with the public and non-profit sectors who often reflect a public or mission driven dedication to affordable housing. Thus, even as QCs can be utilized to prevent the loss of investment in affordability in the long-term, the negotiation process that they initiate suffers from the opposing interests built into the LIHTC program.

As shown in **Table 7**, there are 17 states that use EAPs, making it the second most common mechanism for preservation. Despite the widespread use of the EAPs, the percentage of QAP points varies greatly by state. In some cases, like Colorado, the EAP is given high priority and accounts for a considerable amount of total QAP points (29.23%) in the application for tax credits. In other states, such as Alaska, the EAP is weighted very low and given only a small fraction of the total QAP points (0.45%). UNO-PLUS recommends that EAPs be robust enough in the QAP that they encourage long-term commitments to affordability.

A total of 21 states use a form of preservation of at-risk properties in their QAP, making it the most common point mechanism for addressing preservation issues. Similar to EAPs, states vary greatly in their prioritization of this mechanism. On the high end, Michigan dedicates 14.80% of their QAP points for preservation of at-risk properties (**Table 7**). On the low end, Minnesota dedicates 0.80% of their QAP to the same mechanism. Every QAP point is valued equally and thus we indexed and ranked states in **Tables 8-10** to show the value states place on each mechanism. Even though preservation of at-risk properties is a vital mechanism for the recapitalization of properties, it will not necessarily cover all properties in the state, nor will it guarantee that preservation projects actually get recapitalized. Only when combined with a set-aside for preservation can this mechanism fully guarantee the preservation of affordability. Preservation set-asides will be discussed more in detail on page 31.

Table 7: Percentage of Points Given for Each Mechanism to Incentivize Preservation, Out of Total Possible Points

State	Extended Affordability Period	Preservation	Wavier of Qualified Contract	Other	Total Percentage of Possible Points
Alabama	2.63%				2.63%
Alaska	0.45%				0.45%
Arizona				3.95%	3.95%
Arkansas	3.20%				3.20%
California		6.85%			6.85%
Colorado	29.23%	11.54%			40.77%
Connecticut	5.00%	9.00%		4.00%	18.00%
Delaware	1.97%	6.58%			8.55%
Georgia		6.25%	1.04%		7.29%
Hawaii	11.11%	2.22%			13.33%
Idaho	14.24%			1.61%	15.85%
Illinois	3.10%	1.90%			5.00%
Indiana		4.00%			4.00%
Iowa			9.70%		9.70%
Kansas		3.20%	4.80%		8.00%
Kentucky		2.00%			2.00%
Louisiana	2.00%				2.00%
Maine		3.70%			3.70%
Massachusetts	3.30%				3.30%
Michigan		14.80%			14.80%
Minnesota		0.80%			0.80%
Mississippi	2.90%	5.90%			8.80%
Nevada		10.70%			10.70%
New Hampshire		1.00%			1.00%
New Jersey		1.50%			1.50%
New Mexico		5.00%			5.00%
New York		5.00%			5.00%
North Dakota	7.40%	3.70%			11.10%
South Carolina	7.00%			7.00%	14.00%
South Dakota	8.00%				8.00%
Tennessee				1.10%	1.10%
Utah		1.10%			1.10%
Virginia	2.00%			14.30%	16.30%
West Virginia	15.00%			8.50%	23.50%

Source: Qualified Allocation Plans from each of the 50 states from each state's HFA

Analysis of QAP Point Mechanisms (continued)

UNO-PLUS used our index method to rank states' preservation mechanisms high, medium, or low. **Tables 8-10** show the preservation rankings. As discussed in the Methodology – each state's point mechanism is ranked against the median of all state's (3.95%).

Tables 8 and 9 list states with points for preservation mechanisms awarded above the median percentage. No comparison is being made between each state, rather the comparison is between the entire block of states ranked high, medium, or low. As such, all of the tables are organized alphabetically.

Connecticut has the most number of mechanisms while **Table 7** showed that Colorado awards the highest percentage of points based on our analysis. The majority of states use two mechanisms – 'extended affordability periods' and 'preservation of at risk properties'.

As an example we have included the language from the Connecticut QAP in Appendix B. Connecticut has a diverse suite of preservation policies. Additionally Connecticut was chosen because of the comparable population to Louisiana as well as the comparable population growth from 1990 to 2010. While having one million less people than Louisiana the population growth from 1990 to 2010 has essentially mirrored that of Louisiana.

Table 8: High Ranked States with Point Mechanisms to Incentivize Preservation

State	Point Incentive Mechanisms
Colorado	a) Preservation of at-risk tax credit properties b) Extended affordability period
Connecticut	a) Extended affordability period b) Preservation of at-risk tax credit properties c) Higher unit conversion in preservation rehab d) Preservation rehab projects that do not permanently dislocate residents
Delaware	a) Preservation of at-risk tax credit properties b) Extended affordability period
Georgia	a) Preservation of at-risk tax credit properties b) Waiver of Qualified Contract Right
Hawaii	a) Extended affordability period b) Preservation of at-risk tax credit properties
Idaho	a) Intent to transfer to tenant ownership b) Extended affordability period
Kansas	a) Preservation of at-risk tax credit properties b) Waiving Qualified Contract Right
Mississippi	a) Preservation of at-risk tax credit properties b) Extended affordability period
Nevada	a) Preservation of at risk properties identified by the State's housing preservation list b) Acquisition and rehab of existing LIHTC property
North Dakota	a) Extended affordability period b) Preservation of at-risk tax credit properties
South Carolina	a) Intent to transfer to tenant ownership b) Extended affordability period
Virginia	a) Income or rent limits proposed for the extended use period b) Extended affordability period c) Commitment to sell/transfer to non-profit at end of Year 15
West Virginia	a) Efficient use of 9% tax credit b) Extended affordability period c) Intent to transfer to tenant ownership

Source: Qualified Application Plans from each state's HFA

Analysis of QAP Point Mechanisms (continued)

As can be seen in **Tables 9** and **10**, most of the medium and low ranked states use one mechanism with the exception of Illinois. The medium ranked states have a mechanism awarding above the median, but only one mechanism. The low ranked states have a mechanism awarding points below the median. Illinois stands alone as the exception to the rule, having two mechanisms. Both, however, are below the median percentage ranking.

In reviewing the UNO-PLUS tables, it is important to remember that no national studies exist reviewing the effectiveness of preservation tools be they QAP points, Set Asides, or Other Mechanisms. Our tables focus on the measures taken by states to preserve LIHTC units both quantitatively and qualitatively but we are unable to measure the effectiveness of these mechanisms within each state. The tables provided within the body of the report are an addition to the existing research concerning preservation policies nationally.

Table 9: Medium Ranked States with Point Mechanisms to Incentivize Preservation

State	Point Incentive Mechanisms
California	a) Preservation of at-risk tax credit properties
Illinois	a) Preservation of at-risk tax credit properties b) Extended affordability period
Indiana	a) Preservation of at-risk tax credit properties
Iowa	a) Waiver of Qualified Contract Right
Michigan	a) Preservation of at-risk tax credit properties
New Mexico	a) Preservation of at-risk tax credit properties
New York	a) Preservation of at-risk tax credit properties
South Dakota	a) Extended affordability period

Source: Qualified Application Plans from each state's HFA

Table 10: Low Ranked States with Point Mechanisms to Incentivize Preservation

State	Point Incentive Mechanisms
Alabama	a) Extended affordability period
Alaska	a) Extended affordability period
Arizona	a) Intent to transfer to tenant ownership
Arkansas	a) Extended affordability period
Kentucky	a) Preservation of at-risk tax credit properties
Louisiana	a) Extended affordability period
Maine	a) Preservation of at-risk tax credit properties
Massachusetts	a) Extended affordability period
Minnesota	a) Preservation of at-risk tax credit properties
New Hampshire	a) Preservation of at-risk tax credit properties
New Jersey	a) Preservation of at-risk tax credit properties
Tennessee	a) Intent to transfer to tenant ownership
Utah	a) Preservation of at-risk tax credit properties

Source: Qualified Application Plans from each state's HFA

Tenant Notifications and Grace Periods

Many QAPs refer specifically to tenant issues that arise with year 15 and offer recommendations or requirements to safeguard tenants in case of loss of affordability. In the event that projects experience a market rate conversion, select states give guidelines to protect tenants who might be dislocated. In certain cases, states require a grace period, sometimes up to three years as in the case of Alaska, where rents are to be maintained at the current levels before market rate conversion. In other cases, there are notification requirements for sponsors to alert tenants of the market rate conversion and options for their relocation. In Pennsylvania, tenants are given a one-year notification of the market rate conversion. New Jersey offers enhanced prioritization for recapitalized preservation projects that provide a relocation plan for residents during rehabilitation of the units.

There is also an additional QAP prioritization for tenant ownership of properties. Several states award QAP points to new developments with the intent to transfer the ownership to tenants after year 15. Although it is unclear whether this relates to homeownership or cooperative housing, it is likely that transferring LIHTC single-family rental units to homeownership units is a priority for many of these states. Since the LHFA prioritizes homeownership programs, this could be a valuable way to increase opportunities for tenants to own their own home. This is also a means of looking forward on how to deal with year 15 at the time of initial LIHTC investment in affordable housing, especially for investments in rural parishes with lower-density requirements and single-family developments. However, it is unclear from other state QAPs how the HFAs provide training to build homeownership skills in LIHTC tenants. There is also the concern that properties requiring rehabilitation will instead be transferred to low-income tenants with little or no experience maintaining their own home. Care should be taken to grow viable homeowners and maintain high levels of project code compliance in the event of transfer of ownership to tenants. For more information and potential recommendations for tenant notifications, see Housing Development Center, 2006: 15.

Preservation Set-Aside Evaluation

Out of the 50 QAPs reviewed, 16 states allocated a certain percentage or dollar amount of tax credits to a preservation set-aside. Preservation set-asides are a method of addressing the recapitalization of at-risk properties on a recurring basis. Similar to set-asides for state priorities like rural development, the preservation set-aside allows for preservation projects that could be at-risk of losing affordability to apply for dedicated tax credits. All LIHTC applicants must still apply for tax credits through the general QAP process, but the set-aside allows the state to further evaluate and prioritize the preservation of affordable housing. States also allow unused set-aside tax credits to be used by the general pool of QAP applicants in the event that there are remaining tax credits. As a means to address the short-term year 15 issues of recapitalization and rehabilitation, set-asides are a robust mechanism for the preservation of affordable housing. Moreover, with a clearly defined set-aside evaluation, it is likely that preservation projects can more effectively and efficiently use the necessary resources to recapitalize and preserve affordability.

In order to determine how states prioritize projects in the preservation set-aside, UNO-PLUS reviewed evaluation criteria for all 16 states with set-asides. Although we found the QAP point system to be rather uniform between states, set-asides for each state include a diverse array of evaluation criteria. States with complex regulations and robust housing markets included numerous evaluation criteria for the set-aside. On the other hand, several states merely evaluate the eligible preservation projects with the general QAP point system. Only one state, Delaware, prioritized preservation projects in the set-aside with point values in addition to the points given in the QAP itself. The following analysis looks at the most common evaluation tools, but it was not evident in most of the set-aside criteria which tools were weighted more heavily in the evaluation. Therefore we cannot also examine the tools like we could for the point percentages in the QAP mechanisms.

The most common criteria for evaluating projects in the preservation set-aside are the local dedication of federal public subsidies to the recapitalization cost (**Table 11**). States encourage the dedication of public funds for preservation projects to reduce the amount of tax credits needed for recapitalization or rehabilitation. Federal subsidies, such as project-based Section 8 vouchers, are cited most often. However, we expect that HFAs would also encourage the use of CDBG, HOME or other subsidies as well, in the case that the project conforms to local priorities.

Preservation Set-Aside Evaluation (continued)

Many preservation projects require considerable rehabilitation to meet the standards set forth by HFAs and state building codes. Five states require a minimum rehabilitation cost as a prerequisite for receiving tax credits for preservation. Often, this is set at a certain threshold for per unit price ($15,000/unit (Wisconsin), $50,000/unit (Delaware)) of rehabilitation or a percentage of total development costs.

The requirement for market and affordability studies is another common criteria for preservation set-asides. Applicants must provide documentation that market conditions threaten the affordability of the tax credit property. As part of this analysis, states like New York require a rationale for recapitalization based on the local conditions of the current property, with criteria such as: available alternative affordable housing, market rents, vacancy rates, and current and future demand.

A similar requirement is that applicants must demonstrate that current occupancy rates are above a certain threshold, testifying both the strength of the market and the viability of the project. Disincentives are also given to projects that fall below HFA standards. These might include project sponsors that do not meet minimum code compliance and/or property management standards during the initial 15 years of tax credit compliance. Whereas some states encourage substantial rehabilitation, some states disincentivize buildings that are functionally obsolete.

An examination of "other" criteria for prioritizing projects demonstrates the wide range of tools used to suit each state's preservation priorities (**Table 11**). New Jersey, for example, has some of the nation's strongest tenant protection laws, and so they require relocation plans for displaced residents when a project is recapitalized and rehabilitated. As another example, the deconcentration of poverty has become a local and national priority in housing policy. Some states reference this generally in their QAP, but North Carolina extends this to its priorities for preservation projects by allocating tax credits to projects that meet the state's goals of deconcentrating affordable housing. Although many of these "other" tools may seem idiosyncratic to each state, they show relevance to broad national housing goals and priorities for preserving affordable housing.

Preservation Set-Aside Evaluation (continued)

Evaluation methods that clearly explain the priorities of the HFA in the QAP can more effectively and efficiently use the necessary resources to recapitalize and preserve affordability. There is a wide variety of criteria that can be used for evaluating preservation projects, many of them tailored to meet specific concerns in state housing goals and policy. As noted with respect to QAP mechanisms, there are currently no national best practices for evaluating preservation projects in a set-aside pool. **Table 11** shows the commonality among states, but also the variety of criteria to meet preservation goals. Even with set-asides, many states do not use the entirety of their tax credit pool, allowing HFAs to return unused tax credits to the general pool. As rural housing is a priority for the LHFA, the agency could develop a set-aside that allows for USDA funded projects to receive priority in the evaluation of rural preservation developments. In the following recommendations section, we offer some specific remedies for how to tailor a preservation set-aside to the unique needs of Louisiana.

Most of the tools for evaluating preservation projects are relevant to Louisiana, but there are a few additions that require consideration. New statewide building codes (enacted in 2005) and Federal Emergency Management Agency [FEMA] flood zone requirements affect all publicly funded housing developments. In particular, FEMA flood zones and/or Base Flood Elevations [BFE] may affect development eligibility if existing LIHTC projects do not conform to current building codes that require properties to be elevated above the BFE. The required building codes could significantly impact South Louisiana parishes in the recapitalization of existing tax credit properties if properties are required to invest considerable rehabilitation costs in compliance with the new codes. Considering that six states require significant rehabilitation as part of recapitalization, Louisiana could ensure regional equity in a preservation set-aside by including mitigation from flood risks as part of the rehabilitation cost structure. Care should be taken to ensure that coastal parishes continue to preserve, as well as build new, affordable housing projects.

Table 11: QAP Preservation Set-Aside Evaluation Criteria for Prioritizing Projects

Set-Aside Evaluation Criteria	State(s)
1. Preservation of existing federal subsidies, such as project-based section 8 vouchers, and/or public subsidies dedicated to recapitalization	CA, DE, NC, NJ, OH, PA, OR
2. In need of substantial rehab/exceed certain unit redevelopment cost threshold	CA, DE, MA, NC, PA, WI
3. Market and/or Affordability Study (documentation showing property is at-risk of losing affordability)	CA, MA, NJ, NY
4. QAP point system alone used for set asides	FL, Il, IA
5. Recapitalization requires certain percentage of affordable units and/or targets lowest-income levels	CA, GA
6. Local priority projects (such as located in local revitalization district)	GA, NC
7. Must meet certain timeline criteria: (i.e. placed in service date, years of tax credit assistance)	CA, DE
8. Plan to keep rents below certain threshold	GA, NJ
9. Disincentives for: sponsors with negligent standards, buildings that are functionally obsolete, dislocation of current tenants, and preservation that would subsidize ownership transfer	GA, NC
Other:	
a. Property is family development	DE
b. HFA will lower standards for room size and accessibility	IN
c. Time-limited opportunity to purchase existing affordable housing	MA
d. HFA has discretion to avoid geographic concentration in allocation of tax credits	NC
e. Relocation plan for current residents	NJ
f. Capital needs assessment	NJ
g. Occupancy rates at time of application must exceed threshold	GA

Recommendations

UNO-PLUS recommendations are divided into two categories that address: (1) the LIHTC stock that is currently coming to the end of its compliance period, and (2) the QAP process for new projects going forward. Within the long-term recommendations, we offer some proposals for innovative approaches to compliance monitoring that could help the LHFA manage its compliance duties.

Short-Term

- There is a concern for the 4,553 units (33.6% of all low-income units in the ten year study period) coming to the end of their compliance period by 2014. Given the short time frame in which to devise a strategy for these properties, our recommendation for these properties is to convene summits in collaboration with regional or statewide partners such as Enterprise, LISC, or the Louisiana Association of Affordable Housing Providers [LAAHP] with property owners in the parishes with the top three concentrations of these properties: Orleans, Caddo, and East Baton Rouge. These gatherings should make owners aware of their options. With stakeholders gathered together, LHFA should survey the property owners on their intended estimations of recapitalization, and then re-survey them after 2014 to record how, or if, they did in fact recapitalize their properties. In the immediate period, such a gathering can begin a statewide dialogue on the importance of preservation as a priority and help improve the coordination of groups or firms involved in affordable housing production. In the longer-term, the findings of such a survey could assist LHFA in establishing a baseline "average need" for developers seeking funds for recapitalization at year 15 (Lew-Hailer 2007: 98). A basic calibration of average recapitalization costs could provide insight for LHFA to target the most cost-effective projects, in terms of tax-credit allocations per unit of affordable housing.

- Information infrastructure is absolutely critical to proper disposition and maintenance of at-risk properties. Regular updates of pipeline reports with much more reliable HUD User data will help LHFA staff keep an accurate census of their stock and make future strategic decisions with better and more complete information.

- While this project provided a framework for understanding the 15 year issue within Louisiana, LHFA should conduct further analysis involving a survey of sponsor intentions throughout the state. This will provide LFHA with additional knowledge as to which properties are most at risk of being converted to market rate rents. It can also inform procedures on early government assistance for project sponsors wishing to sell their properties. Louisiana should consider following in the steps of the 2006 HDC Risk Assessment report and undertake a survey of the expiring projects outlined in this report to determine which are most at-risk of losing their affordability, and/or which will be in most need of recapitalization for physical maintenance.

- National models exist for the establishment of web-based clearinghouses where sellers can provide notice of interest to sell and potential buyers can register to receive listings. This can help facilitate matching in the marketplace of LIHTC properties by providing both parties with better information access. One example is the "Opt-Out Log" maintained by the state of Minnesota (www.mhfa.state.mn.us).

Recommendations (continued)

Long-Term

- Our review of national practices found that states placing a higher degree of emphasis on the preservation of existing affordable housing begin developing exit strategies with property owners at an early stage. For example, California defines any property within five years of the year 15 compliance period as eligible to be determined “at-risk”. For Louisiana, we would recommend that LHFA encourage owners to begin planning an exit strategy no later than year 11. Points should be made available for those projects that provide plans for beyond year 15 in their original application, or are willing to certify that they will engage in a planning process beginning at year 11 for recapitalization or transferred-ownership preservation of their properties. Enforcement of such an agreement would be dependent upon LHFA or other organizations which may be able to perform required compliance monitoring (see “innovations in compliance” section).

- As many states already do through point mechanisms in their QAPs, Louisiana should also incentivize the preservation of units that have additional federal subsidies such as project-based Section 8, USDA, or other HUD subsidies. Applying tax credits for recapitalization of these projects assists in maintaining their suitability for occupancy as well as providing additional safeguards for affordability.

- As described in the report, set-asides are a useful way to clearly and efficiently allocate per-capita tax credits to projects. Set-asides of 15% or greater were generally a good indicator of the level of commitment to the issue of preservation specifically. Set-asides are helpful because any unused 9% credits from the set-aside can be re-applied to the general pool. The use of point mechanisms, however, can also help differentiate priority-worthy projects from those that might be less urgent. For the purposes of preservation within the QAP process, we offer one point-based recommendation, and one set-aside recommendation option:

1) Point-Based Preservation Mechanism

Based on the input of stakeholders, LHFA should determine recapitalization or preservation priority regions on a periodic basis (biennially, triennially, etc). For those areas—parishes, MSAs, etc— that the LHFA designates as a "preservation” or “recapitalization” priority region, a meaningful point allocation of at least 5% of total QAP points could apply to all projects that recapitalize or otherwise preserve affordable stock in these areas. Because the designation of preservation priority regions would be subject to change periodically through the regular QAP stakeholder meeting process, this could ensure geographic equity for areas of the state that are particularly concerned with preserving/recapitalizing their affordable stock. LHFA staff will have to exercise caution so that parochial interests of specific regions do not outweigh the statewide mission of the LHFA.

Recommendations (continued)

2) Set-Aside Mechanism

Our analysis in Part I of this report demonstrates the relatively high concentration of LIHTC units in the metropolitan areas of Louisiana, as defined by MSA vs. non-MSA (see **Figure 1**). As such, any set-aside for preservation purposes must, for the sake of geographic and intra-state equity (and in accordance with federal fair housing laws), take into account the needs of these non-MSA areas of the state to ensure that their LIHTC units do not degenerate. Our set-aside recommendation would be to establish a 30% "preservation" set-aside for projects seeking to recapitalize already existing affordable units. Within this set-aside, an additional 40% of these preservation credits should be allocated for projects outside of the state's MSAs (12% of total per capita allocation). Set-asides can be useful because of their flexibility for each allocation period. Any portion of a designated set-aside, if left unused in a given allocation period, can revert to the general pool. For this set-aside arrangement there is no such thing as "too much" allocated for preservation. If there aren't any non-MSA preservation projects, the allocation of 9% credits can revert to the overall preservation set-aside for projects within MSAs. Similarly, if the number of preservation projects fails to exhaust the preservation set-aside of 30%, these credits can revert to the general pool and become available for the production of new housing across the state. In the event that preservation projects exceed their given set-aside designations, they can still compete in the remaining general pool of per-capita credits.

- As demonstrated in Part I, the increasing trend of not mixing tax credit financing methods results in an inefficient over-use of the per-capita 9% credits. As is done in West Virginia, LHFA can create incentives for "credit efficiency" in which projects that preserve or create the greatest number of units with the fewest 9% credits receive additional points for their proposal. This encourages developers to make better use of other financing sources beyond the 9% credit pool, and can help further the mission of the LHFA to provide greater quantities of affordable housing in areas of the state that most need it.

- LHFA should establish tenant notification protocols in year 14 regardless of plans for extension, so that residents face minimal disturbance and hassle related to disposition issues. Several states also provide for grace periods of 1-3 years for tenants in expired or at-risk properties completing their compliance period. Grace periods provide tenants with important information that can help them make plans to transition to other affordable opportunities, and minimize the social costs of displacement

Recommendations (continued)

Innovations in Compliance

Compliance monitoring is one of the most burdensome elements of the LIHTC system for delivering affordable housing. While the root causes of the problems of compliance monitoring reside outside the purview of this report, there is a clear relationship between the costs and challenges of compliance monitoring and effectively maintaining affordable housing of a decent quality in Louisiana and across the United States.

- In order to reduce the compliance burden on LHFA, compliance monitoring can be delegated to other state agencies, and even municipal level organizations. For example, in Massachusetts, the state HFA is not the only body that deals with compliance. In Boston, the Boston Redevelopment Authority [BRA] oversees compliance of many affordable units within their jurisdiction. According to Mayor Menino's senior adviser on Housing, this process is known informally as "farming out" compliance duties. Under the potential consolidations plans for a Louisiana Housing Corporation [LHC], LHFA staff could work with the state office of Community Development, or regional Metropolitan Planning Organizations [MPOs], as well as local redevelopment authorities, to oversee the compliance of affordable units that have passed their IRS reporting period (i.e. beyond year 15). This shared responsibility model can operate in two distinct ways: local authorities can monitor compliance under contract for the LHFA/LHC, or the LHFA/LHC could centrally perform compliance on a fee-for-service basis for municipal entities. This would assist the LHFA in obtaining necessary revenue for compliance monitoring. Such changes could lead to more effective monitoring of extended use agreements over time.

- As mentioned in the report, one of the key aspects to balancing both the expansion and preservation of Louisiana's affordable housing stock will be to diversify the ways in which the stock maintains its affordability. As noted in Part I, non-profit sponsors have a track record of greater interest in retaining affordability of units. In this regard, we recommend that the LFHA examine ways to integrate the participation of non-profit, non-governmental mechanisms for affordability preservation such as Housing Trusts, Mutual Housing Associations, or Community Land Trusts [CLTs] into the disposition and preservation framework for LIHTC properties that are coming to the end of their compliance period. LHFA should pursue opportunities to transfer tax credit properties into other forms of affordable tenure to free up limited 9% credits for other recapitalization and new construction projects as well as staff time spent on compliance monitoring. Transferring to alternative affordable structures can help build long-term and stabilized affordable housing stock that supplements the LIHTC process and does not face the same burdensome reporting and compliance requirements to the IRS ("Community Land Trusts"—PolicyLink n.d.). The net effect of transferring properties to alternative ownership would not only be in accordance with the mission of the LHFA to provide affordable housing, but would increase the non-profit share of affordable housing ownership, and reduce LHFA's compliance costs beyond year 15 when the IRS abdicates its reporting obligations.

Conclusions and Further Research

The Low-Income Housing Tax Credit [LIHTC] remains one of the most important tools for the production of affordable housing in the United States today. As the program ages, however, concerns over the maintenance of the affordability of the units have grown. At the national level, there are further concerns about the quality of the stock, and locating necessary funds for recapitalizing for both affordability and quality (Schwartz and Melendez, 2008). This report sought to address concerns regarding both recapitalization of already existing units, as well as more sustainable practices for the creation of new units. This was performed through analyses of data on Louisiana LIHTC projects as well as a comprehensive review of national preservation practices to provide a basis for advancing preservation policies in Louisiana. This report found that:

- Our report analyzed projects with PIS dates from 1997-2007. This accounts for a total of just over 13,500 units of affordable housing that will come to the end of its compliance period between 2012 and 2022.
- Our analysis divides these units up into three "waves": 2012-2014, 2015-2018, and 2019-2022. The units that will reach the end of their compliance periods are essentially evenly divided into these three waves, though they are distributed in various distinct parishes.
- Over 4,500 units of affordable housing in Louisiana will reach the end of their 15 year compliance period by 2014.
- By 2018, over 9,000 units of affordable housing will come to the end of its 15 year compliance period.
- Nearly one-third (32%) of the projects that will end their 15 year period between 2012 and 2022 are concentrated in three parishes in Louisiana: Caddo, East Baton Rouge, and Orleans. Orleans parish faces the most acute short-term crisis, with just over 13% of projects that will expire by 2014.
- For-profit sponsorship of projects has grown from approximately 40% in earlier projects to the majority of newer projects.
- More recent LIHTC projects have been financed with increasing reliance on the per capita 9% tax credit, rather than a mixture of sources. Greater use of other financing sources and leveraging of other federal subsidies will help preserve 9% credits for new affordable housing construction.

While our recommendations focus on the QAP as a tool for preservation, even the most progressive and cohesive QAP in the nation cannot adequately compensate for a faulty or incomplete database of known properties. This includes not only database maintenance but also revisions in organizational procedures for data collection and monitoring. Database maintenance is absolutely essential to prevent the mysteries (and miseries) of unknown projects and compliance periods. An aggressively maintained database of properties is perhaps one of the most effective steps that the LHFA can take to preserve and expand the stock of affordable housing in Louisiana.

Conclusions and Further Research (continued)

Throughout our report, we used the phrase "National Practices" rather than "Best Practices" because, as stated in the report, best practices for the preservation of LIHTC properties have not yet been established. Only now are nationally recognized think-tanks and advocacy groups such as LISC, Enterprise, National Low-Income Housing Coalition [NLIHC], and the National Housing Trust [NHT] beginning to research which of these practices—which already appear on QAPs across the country—are actually producing the intended results of preservation of at-risk properties.

Finally, perhaps the most salient aspect of our analysis of national practices is what we did not find, rather than what we did find. Recapitalization and preservation of LIHTC properties is an under-examined aspect of tax credit funding mechanisms nationwide. Most, if not all states pay lip-service to this important aspect of tax credit financing in the opening words of their QAPs, yet precious few back up these words with substance. In reviewing HFA practices from across the country, UNO-PLUS believes that the LHFA has an opportunity to become an innovator among its peers with important reforms in its database and compliance monitoring, as well as its QAP.

Appendix A: Additional Information on LA LIHTC Database Methodology

Within this appendix we provide a review of information on missing data, on other sources of information that aided in creating the LA LIHTC, and how the data was combined to create the LA LITHC dataset.

Information on Missing Data:
Within the HUD User database, there were a number of projects that were placed-in-service from 2004 to 2007 with no information on the number of total and/or low-income units. This information was obtained from LHFA staff.

1. Projects missing their 2000 Census tract number are scattered throughout the dataset. This is largely due to the time constraint of this project. None of the LIHTC projects listed in the 2010 LHFA Pipeline reports contained information regarding census tract numbers and a handful of projects within the HUD User database are missing census tract information, totaling 291 projects.

2. Projects reaching the end of their initial 15 year compliance period between years 2019 and 2022 are missing project sponsor information (for/non profit) because these data were not available in LHFA's 2010 Pipeline reports. Information regarding organization or business names for individual projects was also not available, limiting the ability of this project to decipher through other avenues sponsorship information.

3. A handful of 9% and 4% LIHTC projects within the 2010 Pipeline reports are not included in our dataset. They were omitted because they were duplicates of existing HUD User data information. Before deletion, verification from LHFA staff was obtained and any discrepancies were updated accordingly.

Information on Other Sources:
Recognizing the spread of LIHTC projects throughout Louisiana in both urban and rural areas prompted an additional need for project data in relation to those projects located within, near, or apart from metropolitan areas or areas with higher population densities. LHFA staff advised our research team to incorporate data regarding urban and rural or metro and non-metro data from the USDA codes as these codes are being utilized in the new data processes currently underway within the agency. The 2003 USDA continuum code categories include:

Metropolitan counties:

1. Counties in metro areas of 1 million population or more
2. Counties in metro areas of 250,000 to 1 million population
3. Counties in metro areas of fewer than 250,000 population

Appendix A (continued)

Non-metropolitan counties

4. Urban population of 20,000 or more, adjacent to a metro area
5. Urban population of 20,000 or more, not adjacent to a metro area
6. Urban population of 2,500 to 19,999, adjacent to a metro area
7. Urban population of 2,500 to 19,999, not adjacent to a metro area
8. Completely rural or less than 2,500 urban population, adjacent to a metro area
9. Completely rural or less than 2,500 urban population, not adjacent to a metro area

Our dataset incorporates the USDA 2003 codes for metro, non-metro and rural areas, which are within the overall non-metro category.

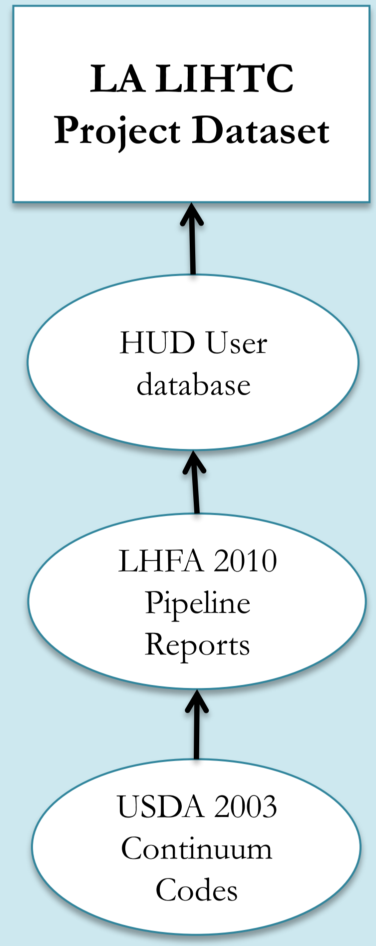
Information on Combining the Data

Incorporating multiple datasets to create the final project database involved isolating like variables between the HUD dataset and pipeline report data, determining criteria for LIHTC projects included in the dataset, and finding alternate sources of information for missing data.

1. Identifying like variables

Much of the data provided by the HUD user database is also available in the LHFA 2010 Pipeline reports. Project addresses provided by the Pipeline reports are utilized in the LA LIHTC dataset to fill in categories specifically regarding project name, street, county, and zip code. Parish names, provided by the 2010 pipeline reports, and are utilized to distinguish between projects located within and outside an MSA, as well as assessing names and corresponding MSA and County codes. Unit data is provided in the 2010 pipeline reports on new and rehabbed units per project. These data were utilized to both distinguish between construction type and assess the total number of units per project. Four percent and nine percent credit allocations, as well as HOME fund allocations are listed and utilized to distinguish between LIHTC type and whether or not projects are HOME fund recipients. Within the 2010 Pipeline reports, project status is listed with variables ranging from "under construction," "placed-in-service," "not closed," and "to be determined." Also listed are expected completion dates for each project. For projects with a status of PIS, the expected completion date is utilized as that project's placed-in-service date within the LA LIHTC projects dataset.

Figure 5.



Appendix A (continued)

2. Determining criteria for LIHTC projects included in LA LIHTC dataset

When assessing the preservation of affordable units in a project's fifteenth year, it became clear that the ultimate qualifying criteria for projects included in the LA LIHTC database is that the project be placed-in-service. As such, all 4% and 9% LIHTC projects in the 2010 Pipeline reports *not* having "PIS" listed as their status are *not* included in the LA LIHTC database. Furthermore, projects listed in the Tax Credit (4%) HOME/MRB (Multifamily) spreadsheet of the 2010 Pipeline report *not* having a 4% tax credit allocation are assumed to to projects not funded by LIHTCs, as such, they are also excluded from the LA LIHTC database.

3. *Alternate sources of information for missing data*

Combining datasets designed to serve distinctly different functions will, not surprisingly, yield a reasonable amount of missing information as many variables fail to align or information is not provided in one dataset while present in the other. Information not contained in the 2010 Pipeline reports that is included in the HUD User database consists of information regarding:

1. Sponsor information
2. Census tract number
3. 2000 County code
4. Credit allocation year
5. Total number of low income units
6. MSA number
7. Construction type

As previously described, much of this information was accounted for through existing related information and identifying like variables (MSA number, 2000 county code, and construction type). Information regarding missing sponsor, credit allocation year, and census tract numbers is not provided in the dataset due to the significant amount of time it would take to obtain this information and the time constraints on this study. More information on missing information is provided in the adjacent side-bar.

Appendix B

Example of Preservation Tools and Language from Connecticut QAP

Preservation (13 Points)

Preserves At-Risk Affordable Housing

The rehabilitation project preserves existing affordable housing that is at-risk of conversion to unregulated use within 3 years and has identified rehabilitation needs. (Substantial or Moderate rehabilitation, as defined by the Standards, and documented by a CNA).

Rehabilitation Level	Points
Substantial rehabilitation	6
Moderate rehabilitation	3

Production and Preservation of Units

The Authority prefers to produce more affordable housing units, as long as such production is appropriate to the site and the needs of the community.

Effect on Unit Count	Points
Resulting project will have 10% or more units than the development it replaces	4
No net loss of units	2
Reduction of units	0

Affordability Profile

Points will be awarded if the units after revitalization are affordable to current residents so that no permanent displacement of current residents is required for reasons of affordability (relocation plan required). 3 points

Length of ELIHC
Projects that commit to longer periods of affordability are preferred, as long as that commitment is sustainable. Points will be awarded for affordability periods totaling 40 years or more (compliance period plus extended use).

Years of affordability	Points
≥50	2
≥40 and <5	1

Appendix C: LIHTC Projects by Parish

Table 12. Summary of Projects Reaching the End of their Initial 15 year Compliance Period in 0 to 2 years (2012 - 2014), 3-6 years (2015-1018), and 7-10 years (2012-2022)

	2012-2014		2015-2018		2019-2022		2012-2022	
Parish	#	% of Total	#	% of Total	#	% of Total	#	% of Total
Caddo	7	8.3%	17	16.2%	20	17.4%	44	14.5%
Orleans	11	13.1%	5	4.8%	16	13.9%	32	10.5%
East Baton Rouge	6	7.1%	4	3.8%	13	11.3%	23	7.6%
Ouachita	4	4.8%	9	8.6%	9	7.8%	22	7.2%
Calcasieu	5	6.0%	8	7.6%	8	7.0%	21	6.9%
Natchitoches	3	3.6%	8	7.6%	2	1.7%	13	4.3%
Rapides	1	1.2%	5	4.8%	6	5.2%	12	3.9%
Lincoln	5	6.0%	2	1.9%	4	3.5%	11	3.6%
Jefferson	1	1.2%	5	4.8%	2	1.7%	8	2.6%
Lafayette	4	4.8%	1	1.0%	3	2.6%	8	2.6%
Acadia	2	2.4%	0	0.0%	6	5.2%	8	2.6%
Tangipahoa	2	2.4%	1	1.0%	4	3.5%	7	2.3%
Iberia	2	2.4%	0	0.0%	5	4.3%	7	2.3%
Union	1	1.2%	2	1.9%	3	2.6%	6	2.0%
De Soto	1	1.2%	4	3.8%	0	0.0%	5	1.6%
Allen	1	1.2%	2	1.9%	2	1.7%	5	1.6%
Livingston	1	1.2%	2	1.9%	2	1.7%	5	1.6%
Webster	0	0.0%	3	2.9%	2	1.7%	5	1.6%
Bossier	1	1.2%	1	1.0%	3	2.6%	5	1.6%
Bienville	2	2.4%	2	1.9%	0	0.0%	4	1.3%
Morehouse	3	3.6%	1	1.0%	0	0.0%	4	1.3%
St. Landry	2	2.4%	2	1.9%	0	0.0%	4	1.3%
Richland	1	1.2%	1	1.0%	2	1.7%	4	1.3%
Acension	1	1.2%	2	1.9%	0	0.0%	3	1.0%
Avoyelles	2	2.4%	1	1.0%	0	0.0%	3	1.0%
Sabine	0	0.0%	3	2.9%	0	0.0%	3	1.0%
Vernon	1	1.2%	2	1.9%	0	0.0%	3	1.0%
Lafourche	1	1.2%	1	1.0%	1	0.9%	3	1.0%
Claiborne	0	0.0%	2	1.9%	0	0.0%	2	0.7%
Concordia	1	1.2%	1	1.0%	0	0.0%	2	0.7%
East Feliciana	1	1.2%	1	1.0%	0	0.0%	2	0.7%
Jefferson Davis	2	2.4%	0	0.0%	0	0.0%	2	0.7%
Winn	1	1.2%	1	1.0%	0	0.0%	2	0.7%
Madison	0	0.0%	1	1.0%	1	0.9%	2	0.7%
Washington	1	1.2%	0	0.0%	1	0.9%	2	0.7%
Assumption	1	1.2%	0	0.0%	0	0.0%	1	0.3%
Beauregard	1	1.2%	0	0.0%	0	0.0%	1	0.3%
Evangeline	1	1.2%	0	0.0%	0	0.0%	1	0.3%
Grant	0	0.0%	1	1.0%	0	0.0%	1	0.3%
Jackson	0	0.0%	1	1.0%	0	0.0%	1	0.3%
Pointe Coupee	0	0.0%	1	1.0%	0	0.0%	1	0.3%
Red River	0	0.0%	1	1.0%	0	0.0%	1	0.3%
St. Charles	1	1.2%	0	0.0%	0	0.0%	1	0.3%
Tensas	1	1.2%	0	0.0%	0	0.0%	1	0.3%
Terrebonne	1	1.2%	0	0.0%	0	0.0%	1	0.3%
West Feliciana	1	1.2%	0	0.0%	0	0.0%	1	0.3%
West Baton Rouge	0	0.0%	1	1.0%	0	0.0%	1	0.3%
Total:	84	100.0%	105	100.0%	115	100.0%	304	100.0%

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