

OVERVIEW OF SEVEN BASIC GAP FINANCING SUBSIDY VEHICLES

I. DEVELOPMENT COST SUBSIDIES

(Any subsidy that helps reduce the Total Asset Cost)

- A. Local, state or federal public funding grants
 1. Local: Municipal Affordable Housing Trusts,
 2. State: Community Preservation Act (Massachusetts)
 3. Federal: HOME (HOME Investment Partnerships Program), CDBG (Community Development Block Grants), ESG (Emergency Solutions Grants), HOPWA (Housing Opportunities for People with Aids), CHOICE NEIGHBORHOODS Planning or Implementation Grants, Continuum of Care Homeless Assistance Programs
- B. Private grants/foundation grants (E.g., Federal Home Loan Bank AHP, Community Reinvestment Act, Ford Foundation)
- C. Free land or below market land cost
- D. Charitable contribution (donor receives tax deduction benefit)
- E. Free or reduced cost building supplies/labor (E.g., Habitat for Humanity)
- F. Infrastructure improvements by city (E.g., streets, sidewalks, utilities)
- G. State Enterprise Zone benefits (E.g., elimination of a state sales tax on building materials)
- H. Tax Increment Financing (TIF) for infrastructure or other improvements
- I. Pro bono legal/accounting services
- J. Sweat equity
- K. Energy conservation grant
- L. Bake sales

II. TAX CREDIT SUBSIDIES

(Any subsidy that creates a source of equity funding for a project through federal, state, and/or local income tax credit programs)

- A. LIHTC (Low Income Housing Tax Credit)/Section 42 of Internal Revenue Code
- B. Numerous state low income housing tax credit programs
- C. Federal Historic Preservation Tax Incentives Program (20% Rehabilitation Tax Credit)
- D. Numerous state historic preservation tax incentive programs

- E. New Markets Tax Credits (available for certain commercial projects providing public benefits in designated neighborhoods)

III. FINANCING SUBSIDIES

(Any financing mechanism that helps increase the maximum supportable level of debt)

- A. BMIR (Below Market Interest Rate) financing (E.g., FHLB Affordable Housing Program, Community Reinvestment Act motivated lending programs, state and local Affordable Housing Trusts, energy conservation loan)
- B. "Soft" second loans
- C. Interest reduction subsidy programs
- D. Tax-exempt bond financing
- E. Tax Increment Financing (TIF) for infrastructure or other improvements
- F. Favorable mortgage loan terms (E.g., a 40-year term that helps reduce the annual constant)
- G. Reduced debt service coverage factor (E.g., 1.10 rather than 1.15)
- H. Credit enhancement resulting in a lower interest rate (E.g., FHA mortgage insurance)

IV. OPERATING SUBSIDIES

(Any subsidy that reduces Operating Expenses and Replacement Reserves, thereby increasing Net Operating Income and thereby ultimately helping to increase the maximum supportable level of debt)

- A. Real estate tax concessions based upon a legal enabling statute
- B. Free or reduced cost utilities
- C. Pro bono accounting, legal services, etc.
- D. Operating deficit subsidy (public housing)

- E. City services not normally provided for privately-owned residential developments (E.g., trash pick-up, snow plowing, etc.)

V. RENTAL ASSISTANCE SUBSIDIES

(Any subsidy that increases a project's Potential Gross Income, thereby increasing Net Operating Income and thereby ultimately increasing the maximum supportable level of debt)

- A. Section 8 Project Based Assistance (PBA) or Tenant Based Assistance (Certificates/Vouchers). Now known as the Housing Choice Voucher Program.
- B. Rental Assistance Demonstration (RAD)
- C. Other state/federal rental assistance programs

VI. ENTITLEMENT SUBSIDIES

(Any public entitlement/permitting action that helps reduce the Total Asset Cost.)

- A. Density bonuses or other zoning variances (E.g., Floor-to-Area Ratio, Height, Setbacks, Open Space, and/or Coverage requirements)
- B. Subdivision Rules & Regulations variances/waivers (E.g., road width, curbing location and material requirements, maximum length of dead end street)
- C. Expedited entitlement review (Green Tape vs. Red Tape) (Time = \$)

- D. Fee waivers by permitting agencies (E.g., Building Permit, Water and Sewer Tie-In Fees, Certificate of Occupancy Fees)

- E. Applies to Inclusionary Zoning only when entitlement benefits are offered that offset the cost of creating the required percentage

VII. PROJECT - GENERATED CROSS SUBSIDIES

(Any subsidy that uses project-generated rental income or sales income from market rate units to make it financially possible to create affordable rental or ownership units. Project must be located in strong market area to be able to utilize this subsidy.)

- A. Mixed-income rental or ownership housing (sometimes resulting from Inclusionary Zoning requirements) where revenue from Market-rate units offsets the costs of providing Affordable units.

VIII. OTHER RESOURCES

<http://apps.urban.org/features/cost-of-affordable-housing/>