



BUTLER | SNOW

May 2025

HB 21 Summary



HB 21 SUMMARY FOR THE AFFORDABLE HOUSING INDUSTRY

OVERVIEW

House Bill 21 makes sweeping reforms to Chapter 394 of the Texas Local Government Code, redefining the structure and requirements for Housing Finance Corporations (HFCs) seeking property tax exemptions for multifamily residential developments. The bill introduces enhanced affordability standards, accountability mechanisms, and local oversight requirements—designed to ensure that tax benefits translate into real affordability.

KEY REQUIREMENTS FOR TAX-EXEMPT HFC DEVELOPMENTS

- Affordability Set-Asides (Sec. 394.9026(c)(1)):
 - Option A: 10% @ ≤60% AMI + 40% @ ≤80% AMI
 - Option B: 10% @ ≤50% AMI + 40% @ ≤100% AMI
- Rent Reduction Requirement (Sec. 394.9026(c)(2)):
 - At least 50% of the foregone taxes must be passed through as rent reductions.
 - If not met, HFCs must remit the shortfall to taxing units.
- Rent Caps (Sec. 394.9026(c)(5)):
 - Rents may not exceed 30% of HUD-defined AMI by income.
- Tenant Protections (Sec. 394.9026(c)(6)-(9)):
 - Mandatory voucher program participation
 - No excessive income screening
 - Good cause lease non-renewal
 - Affirmative marketing and public disclosure

JURISDICTIONAL OVERSIGHT (SEC. 394.031)

- HFCs may only operate outside their jurisdiction with a resolution from the local governing body.
- Prevents 'traveling HFC' arrangements without local oversight.

COMPLIANCE & AUDITS (SEC. 394.9027)

- Annual independent audit due by June 1, reviewed by TDHCA.
- 180-day cure period for noncompliance before tax exemption is revoked.
- Audit findings are published online for transparency.

TRANSITION & DEADLINES (SEC. 13)

- Existing developments must meet:
 - Tenant protection compliance by Jan 1, 2026
 - Affordability standards within 10 years or earlier if sold/refinanced/transferred
- Out-of-jurisdiction projects lose exemption after Jan 1, 2027 unless local approval is secured
 - First audit reports due by June 1, 2026



EXEMPTIONS

- LIHTC projects are generally exempt from the new audit and rent reduction provisions (Sec. 394.905(e))

WHAT DEVELOPERS SHOULD DO NOW

- Review and update structures for HB 21 compliance
- Confirm local jurisdictional approval
- Prepare for TDHCA audit and reporting
- Monitor TDHCA rulemaking for implementation guidance