Low-Income Housing Tax Credit Program and Rural Housing

Background:

The Council for Affordable and Rural Housing (CARH) represents the interests of builders, developers, managers and suppliers of affordable rural housing throughout the country. Affordable rental housing issues affect residents and a broad array of local government, non-profit and for-profit participants working together in partnership. The need for affordable housing persists and it cannot be adequately addressed except through current delivery mechanisms, developed and made more efficient over decades of providing affordable housing. In rural areas throughout the country, there continues to be an even more acute need for affordable and decent housing. Rural renters are more than twice as likely to live in substandard housing as people who own their own homes. With lower median incomes and higher poverty rates than homeowners, many renters are simply unable to find decent housing that is also affordable. While the demand for rental housing in rural areas remains high, the supply, particularly of new housing, has decreased.

Rural housing is dependent on several sources of funding for construction and preservation of the existing housing stock. The Low-Income Housing Tax Credit (Housing Credit) program is a vital source for this important housing. The Housing Credit program has worked successfully since its creation in 1986. It bridges the gap between what the market provides and what the market demands. In short, America’s elderly, working families, civil servants and working poor seek to live in or near their jobs, families and communities. In most of America this need cannot be met. Homeownership is out of reach or not financially viable. Indeed, the cost of providing any new housing or rehabilitating existing housing to current standards without public-private assistance is too expensive for most low-income Americans. The Housing Credit program allows multi-family housing providers to utilize cost effective, energy-efficient housing developments to meet this need. The program also allows non-profit and for-profit companies to work together with local and state governments to raise private equity and put it to use bridging the financial gap. The savings are passed on to the residents in the form of affordable rental housing.

When the Housing Credit program was enacted as part of the Reagan-era Tax Reform Act of 1986, it did not create a large new bureaucracy. Instead, it uses a small policy-setting staff at the Internal Revenue Service to coordinate funding to states, which in turn works with state Housing Finance Agencies or local agencies, depending on the local choices. These state and local agencies rigorously inspect and asset manage, but their job is made easier by the private investment system. Housing Credit investors are strongly motivated to require project operators and managers to comply with housing requirements, even before government inspections.
Issues and Recommendations:

Since its inception, the Housing Credit program has created homes for approximately 2.4 million families. For each 100 apartment units, 116 jobs are created, generating more than $3.3 million in federal, state and local revenue. Thus, when investment in the Housing Credit program came to a standstill during the economic turmoil of the last several years, employment in the construction industry was also impacted. Even as of April 2014, unemployment in the construction industry was at 9.4%. This important housing resource creates a positive, broad-based economic benefit that includes jobs (particularly construction jobs), income and taxes in industries such as manufacturing, trade, and services, in addition to construction. Income includes business profits as well as wages and salaries paid to workers. Affordable housing not only creates jobs directly, but facilitates job growth, generally. The shortage of affordable housing has become acute in many places over the past few years. The lack of affordable housing is preventing workers from meeting job demand in areas such as Kansas, Oklahoma, Minnesota, Alaska and rural California.

Rural housing construction and preservation projects have access to only a few funding sources. The Housing Credit program is a vital source for this important housing. The Housing Credit is narrowly targeted and represents the best of the public-private partnership between government, local communities and the private sector. The program is the most successful affordable rental housing production program and its place in the tax credit code is an essential part of its long-term success. Indeed, Housing Credit has been so successful that it has become the model for subsequent programs.

The focus on deficit reduction has raised tax reform on the national agenda. CARH is concerned about several of the provisions contained in the recently released discussion draft by the House Ways and Means Committee that would reform the tax code. While the discussion draft would preserve certain aspects of the Housing Credit program, it would make substantial changes that would make preservation of the rural housing portfolio almost impossible to do. Specifically, the proposal would eliminate the 4 percent Housing Credit, which would eliminate the acquisition credit used in preservation projects that also have 9 percent credits. This, together with the proposed elimination of tax-exempt private activity bonds, would effectively end rural housing preservation transactions. CARH would urge Congress to thoroughly examine the recommendations contained in the discussion draft and oppose provisions that would negatively impact a rural housing portfolio that is dependent on current Housing Credit provisions for preservation.

In addition, to protecting and preserving the Housing Credit program as a permanent part of the tax code, CARH supports H.R. 4717, Legislation that would make permanent and expand the temporary minimum credit rate for the low-income housing tax credit program, introduced by Representative Pat Tiberi (R-OH) and S. 1442, Improving the Low Income Housing Tax Credit Rate Act, introduced by Senator Maria Cantwell (D-WA) which would permanently improve the credit’s efficiency and effectiveness at little or no cost. CARH also supports the Senate Finance Committee’s inclusion of language in the Expanding Provisions Improvement Reform and Efficiency (EXPIRE) Act or “tax extenders” legislation, that would extend the 9% fixed floor
rate through January 1, 2016 as well as provide for a minimum 4 percent Housing Credit rate for
the acquisition of affordable housing for allocations made before January 1, 2016. **H.R. 4717, S. 1442** and the legislation and language in the Senate Finance Committee’s **EXPIRE Act** would do the following for rural housing throughout the country:

1) **Make the 9 percent Housing fixed floor rate permanent**

   The Housing and Economic Recovery Act of 2008 (HERA) set the rate for new construction and substantial rehab Housing Credits (also known as 9 percent credits) from each state’s allocation at no less than 9 percent, the amount originally envisioned when the program was created in the Tax Reform Act of 1986. This experiment proved successful—it removed the uncertainty and financial complexity of the floating rate system, simplified state administration, and facilitated development of affordable housing after HERA’s enactment. However, this provision expired for apartments placed in service after 2013. Developments now will need to be underwritten at the floating rate, which would mean a sudden and substantial reduction in the amount of equity that a development could receive for its allocation (though with no change in the amount of credits allocated). In the current budget environment where gap financing from HOME, CDBG, and other local sources are at risk, such a cut in equity would make the development of affordable housing more difficult. Making the fixed floor rate permanent would not increase the number of Housing Credits allocated, as they are capped annually. It just affects how much allocation each project may receive.

2) **Make the Housing Credit floor rate for acquisition fixed at no less than 4 percent**

   In addition to the new construction and substantial rehab credits, states are allowed to provide Housing Credits from their capped allocation for the acquisition of existing property, an important tool for affordable housing preservation. Acquisition credits are currently set by the floating rate system just like new construction and substantial rehab credits were before HERA. Applying the fixed floor rate for acquisition credits at no less than 4 percent would similarly remove the uncertainty and financial complexity of the floating rate system, simplify state administration, and facilitate preservation of affordable housing at little or no cost to the federal government. Acquisition credits are less than 10 percent of all allocated credits, so the incremental additional cost of extending the fixed floor rule to acquisition credits would be minimal.