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AMERICA'S AFFORDABLE HOUSING CRISIS: CHALLENGES AND SOLUTIONS

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CONTENTS

OPENING STATEMENTS

WITNESSES

ALPHABETICAL LISTING AND APPENDIX MATERIAL

COMMUNICATIONS

AMERICA'S AFFORDABLE HOUSING CRISIS: CHALLENGES AND SOLUTIONS

TUESDAY, AUGUST 1, 2017

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:10 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Orrin G. Hatch (chairman of the committee) presiding.

Present: Senators Grassley, Cornyn, Thune, Isakson, Portman, Toomey, Cassidy, Heller, Scott, Wyden, Stabenow, Cantwell, Nelson, Cardin, Brown, Bennet, Casey, and McCaskill.

Also present: Republican Staff: Mark Prater, Deputy Staff Director and Chief Tax Counsel; Nicholas Wyatt, Tax and Nominations Professional Staff Member; Jeff Wrase, Chief Economist; and Martin Pippins, Detailee. Democratic Staff: Michael Evans, General Counsel; Tiffany Smith, Chief Tax Counsel; Adam Carasso, Senior Tax and Economic Advisor; and Robert Andres, Tax Policy Analyst.

OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM UTAH, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will come to order.

I want to welcome everybody to today's hearing entitled "America's Affordable Housing Crisis: Challenges and Solutions."

This is an important issue, and this hearing will allow the committee to hear from experienced and well-educated witnesses who can provide more context on our affordable housing policies and the sections of the tax code that were written with the intent of mitigating this long-time set of problems in our society.

As many of you are aware, the last time we underwent a national, comprehensive revision of the tax code was in 1986, with the passage of the Tax Reform Act. At that time, affordable housing tax incentives were baked into statute, with the Low-Income Housing Tax Credit being chief among them.

Since then, this important section of the tax code has enjoyed bipartisan support. Still, it is worth examining this particular law as we continue to ramp up our work on tax reform.

Throughout today's hearing, I want each member to keep in mind some guiding principles for tax reform. I have repeated these principles quite a bit in recent years. But for those in the audience who may not have heard me mention them, the principles are fairness, efficiency, simplicity, and American competitiveness.

These principles are important within the context of affordable housing tax policy, because they should be able to help us improve upon what is currently in the code. I know the prospect of more oversight can be seen as a challenge, but I think we should all view this examination as an opportunity to determine where we can improve.

While some sections of the tax code have undergone changes over the past 3 decades, solutions on affordable housing remain as elusive as ever. There seem to remain many households facing cost burdens associated with renting, with perhaps as much as 26 percent of renter households having paid more than half of their incomes in rent in 2015, for example.

And the burdens seem to fall heavily on lower-income households. And this is not just simply a problem of arithmetic. In 2015, 25 million children lived in households in which rent comprised a fairly large share of household income.

This is a problem that should be ready for a bipartisan solution. We have already introduced bipartisan legislation to address some of these issues. And many are hopeful that cooperation on these efforts will continue. I personally believe they will.

With that, I would just like to thank everyone for attending today, and I look forward to hearing from our distinguished panel of witnesses. But before we get to that, I would like to hand it over to the ranking member, Senator Wyden, for his opening remarks at this time.*

[The prepared statement of Chairman Hatch appears in the appendix.]

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON

Senator WYDEN. Thank you very much, Mr. Chairman. Mr. Chairman, let me thank you for focusing today on the Low-Income Housing Tax Credit, which is a key part of the tax reform puzzle.

I also want to thank our colleague from Washington State, Senator Cantwell, who has been for years now the go-to person on this committee on this issue. I am going to talk a little bit more about the history of it in a minute.

I would also like to note there was a lot of talk last week about bipartisanship and bipartisanship on key issues. That is what this committee is showing today, that we are serious about tackling an important issue in a bipartisan way.

Colleagues, my bottom line is, America's housing policy needs an urgent remodel. Today millions of Americans struggle to pay the rent, and they cannot even dream of purchasing a home.

To recall our old classes on Introduction to Economics, a key housing challenge is increasing supply. When housing is scarce in the communities where people want to live and work, prices get bid up and working people get pushed out. Rent rises faster than people's incomes, even among those who are earning a pretty good salary. And there are few incentives to build affordable housing near schools, public transit, and amenities like parks and retail services.

Oftentimes, the only places where people can afford housing are an hour or more from where they work or where they want their

* For more information, *see also,* "Present Law and Data Relating to Tax Incentives for Rental Housing," Joint Committee on Taxation staff report, July 28, 2017 (JCX–40–17), *https://www.jct.gov/publications.html?func=startdown&id=5019.*

kids to go to school every single day. And a lot of Americans either spend a small fortune on train tickets and bus fares, or they spend an eternity sitting behind a steering wheel on a daily commute. And a lot of our folks wind up in food deserts where it is almost impossible to get healthy fresh food.

This crisis is a five-alarm fire across America. And it is certainly true in my home State of Oregon—in Portland, Bend, Hood River, Astoria, Medford, and a lot of other places. I see it on the faces of families, children, vets, and folks who are living on the streets.

Now Senator Cantwell and Senator Hatch have an important bill, and I have cosponsored it. It is entitled the Affordable Housing Credit Improvement Act of 2017.

In effect, it supercharges the Low-Income Housing Tax Credit, and it also builds on what the three of us got into the 2015 tax bill which made the expanded Low-Income Housing Tax Credit permanent.

In my view, this is a bipartisan, smart way to attack the housing scarcity problem, and it is going to mean more housing goes up in communities where folks want to work and plant roots.

In the days ahead, I am going to have other ideas about the housing challenge, particularly about helping the middle-class and first-time homebuyers and doing a better job of linking services—services like transportation—with low-income housing.

Today we are going to talk to our witnesses about some of the ideas that Senators Cantwell and Hatch have put forward. I want to thank the two of them and particularly note that, after the events of last week, colleagues, it is more important than ever to be very concrete about this issue of bipartisanship and not just make it a rhetorical talking point. That is what we are doing today.

Thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you, Senator.

[The prepared statement of Senator Wyden appears in the appendix.]

The CHAIRMAN. I also would like to thank Senator Cantwell. She was the one who suggested this hearing, and we have gone out of our way to make sure that we have it. And I just want to thank you for your efforts in this regard.

I would like to welcome each of our five witnesses today. I am confident we have some of the Nation's greatest minds and experts on housing and urban development matters.

First, we will hear from Mr. Daniel Garcia-Diaz, Director of the Financial Markets and Community Investment group at the U.S. Government Accountability Office.

Mr. Garcia-Diaz leads a range of reviews covering mortgage finance, rental housing, economic development, and insurance. Specifically, he led recent reviews of management issues in the Department of Housing and Urban Development on Home Ownership and Affordable Rental Housing, the Low-Income Housing Tax Credit, and the Federal Terrorism Risk Insurance Programs. He has also led reviews of programs and regulatory changes authorized under the Emergency Economic Stabilization Act and the Dodd Frank Wall Street Reform Act.

Mr. Garcia-Diaz joined GAO in 1998. He holds a bachelor's degree from Dartmouth College and a master's degree in public policy from Harvard University's Kennedy School of Government.

Then we will hear from Mr. Grant S. Whitaker, president of the National Council of State Housing Agencies.

Mr. Whitaker hails from my home State of Utah and has been extraordinarily helpful as we have prepared for this hearing. He has dedicated his career to serving the financial needs of low- and moderate-income families back in our home State of Utah.

He currently serves as president and CEO of the Utah Housing Cooperation, a self-supporting, State-sponsored public corporation which has been funding and promoting affordable housing in Utah since 1977. Mr. Whitaker was appointed to the position of president and CEO in January 2009 and has served in that capacity since that time. But Mr. Whitaker's experience at UHC started back in 1979, before the last time we reformed the tax code.

Mr. Whitaker earned a bachelor's degree in business management from the University of Utah's David Eccles School of Business. Subsequently, he worked on post-graduate studies at the University of Utah and through the university's professional education division.

Third will be the Honorable Dr. Katherine M. O'Regan, professor of public policy and planning at NYU's Wagner Graduate School of Public Service, where she is also the faculty director of the Furman Center for Real Estate and Urban Policy. Dr. O'Regan recently served from April 2014 to January 2017 as the Assistant Secretary for Policy Development and Research at the Department of Housing and Urban Development.

Her primary research interests are at the intersection of poverty and space. Among others, she has served on the board of the Reinvestment Fund, the advisory board for NYU's McSilver Institute for Poverty Policy and Research, and the editorial board for the *Journal of Policy Analysis and Management.* She has been a visiting scholar at the Federal Reserve Bank in Boston and at the Economic Studies Group at the Brookings Institution.

Dr. O'Regan holds a Ph.D. in economics from the University of California at Berkley and spent 10 years teaching at the Yale School of Management.

Then we will hear from Dr. Kirk McClure from the Urban Planning Program at the University of Kansas. Dr. McClure has won several awards for his research on housing and urban planning.

His academic career has also included an appointment as scholar and resident to the U.S. Department of Housing and Urban Development. He serves on the board of editors of *Housing Studies* and the *Journal of Planning, Education, and Research.* He is associate editor of *Housing Policy Debate.*

Dr. McClure holds a master's of city planning degree from the Massachusetts Institute of Technology and a Ph.D. degree from the University of California at Berkeley.

And finally, Mr. Granger MacDonald is chairman of the board of directors for the National Association of Home Builders and president of the MacDonald Companies.

Mr. MacDonald is a Kerrville, TX-based builder and developer with 40 years of experience in the home-building industry. His company, MacDonald Companies, provides affordable housing for communities in need in the State's rural and small metro areas.

Mr. MacDonald also has extensive experience working in the NAHB leadership, including more than 30 years on the NAHB board of directors and chairing the Federal Government Affairs Committee, the State and Local Government Affairs Committee, the Housing Credit Group, and the Multifamily Council and Build PAC.

Mr. MacDonald holds a BBA degree in real estate and finance from the University of Texas School of Business.

We will start with you, Mr. Garcia-Diaz. You will kick this off with your opening remarks, if you will.

STATEMENT OF DANIEL GARCIA-DIAZ, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, DC

Mr. GARCIA-DIAZ. Thank you.

Mr. Chairman, Ranking Member Wyden, members of the committee, thank you for the opportunity to be here today to discuss the Low-Income Housing Tax Credit program, the Nation's largest source of Federal assistance for developing affordable rental housing.

Over the past 3 years, GAO has completed three reviews of this program. We have a current effort underway looking at development costs under the program. We have worked with a total of 17 different allocating agencies in 14 States and in the District in conducting these four reviews.

I want to recognize the cooperation of these agencies during our site visits and in responding to requests for information. We look forward to continuing a productive working relationship with them.

As you know, the Internal Revenue Service is in charge of administering the LIHTC program, while State and local allocating agencies are responsible for day-to-day implementation of the program. My statement today focuses on allocating agencies' implementation of Federal requirements and IRS's oversight of the program.

We found that allocating agencies have implemented varying processes to address key Federal requirements, but we have some concerns that I would like to highlight in my remarks, which are discussed more fully in our prior reports.

Allocating agencies are responsible for alerting IRS about any property noncompliance. Problems with property physical condition are the most common form of noncompliance.

We found that agencies varied in when they submitted noncompliance reports to IRS, what types of violations were reportable, and the level of supporting details provided. Because of these differences, it is not surprising that the number of submitted noncompliance reports from nine agencies we examined ranged from as little as one to more than 1,700 over a 1-year period, and, in fact, we are aware that some agencies have submitted few or no compliance reports to IRS over a 3-year period, and IRS has not followed up with them.

Furthermore, we also found that IRS does very little to assess the noncompliance information it receives. IRS has no method to determine if issues reported have been resolved or if properties have recurring noncompliance issues.

In addition, we also found that critical data on allocation amounts and certification were not complete and reliable. For example, we could not tell how often LIHTC properties were placed in service within required time frames. Across these findings, a common problem has been that IRS oversight of this program has been minimal.

Over the past 30 years, IRS has audited allocating agencies 7 times. Yet, even when these audits were conducted, they often yielded multiple findings, including agency policies that conflict with the code or Treasury regulation, incomplete or outdated qualified allocation plans, annual reports to IRS with errors, and so on.

We have some thoughts on how to strengthen oversight and accountability in the LIHTC program. First, with respect to noncompliance reporting, we made two recommendations that IRS clarify when agencies should report noncompliance and evaluate how it could improve noncompliance information by leveraging HUD's physical inspection data systems. These recommendations remain open.

Second, in response to our concern about data quality, we recommended that IRS should address weaknesses in control to ensure reliable data are collected on credit allocations. IRS has not completed implementation of this recommendation but is taking steps to improve it.

And finally and more significantly, we continue to believe that the Department of Housing and Urban Development can be a resource to augment IRS's oversight capabilities. Other tax credit programs such as the New Markets Tax Credits and the Historic Tax Credits have formal partnerships grounded in statute with a relevant subject matter agency to assist in oversight, data collection analysis and reporting, and technical assistance.

HUD is well-positioned to assist allocating agencies' efforts to monitor physical and financial condition of properties, address Federal fair housing goals, and perform other tasks that are common in managing affordable rental housing programs—all areas in which IRS has no specific expertise.

Over the past 30 years, LIHTC has matured to be the most significant Federal policy tool for incentivizing the production of affordable housing nationwide. We believe that investing in oversight and accountability will help ensure that agencies meet program requirements, use Federal resources effectively, and ultimately achieve the Nation's goal of providing poor and vulnerable families safe, decent, and affordable housing which is so desperately needed today.

This concludes my opening remarks. Thank you again for the opportunity to speak today. I would be glad to take any questions you have.

[The prepared statement of Mr. Garcia-Diaz appears in the appendix.]

STATEMENT OF GRANT WHITAKER, PRESIDENT, NATIONAL COUNCIL OF STATE HOUSING AGENCIES, WASHINGTON, DC

Mr. WHITAKER. Mr. Chairman, Senator Wyden, members of the committee, thank you for this opportunity to testify on behalf of the National Council of State Housing Agencies.

I am Grant Whitaker, president and chief executive officer of the Utah Housing Corporation. I also serve as president of NCSHA, a nonpartisan, national organization that represents State housing finance agencies.

Thank you, Mr. Chairman and Senator Cantwell, for your steadfast support for the Low-Income Housing Tax Credit and tax-exempt private activity housing bonds. And thank you for your leadership in introducing the Affordable Housing Credit Improvement Act, S. 548.

I also want to acknowledge Senator Wyden and the many other members of the committee who have cosponsored this bill. We urge all Senators to become cosponsors.

The Housing Credit and Housing Bonds program has long enjoyed strong bipartisan support, and this bill is no exception. Already, nearly one-third of Senators—Republicans and Democrats—have cosponsored this legislation. The House companion legislation also has significant bipartisan backing.

The need for affordable rental housing across the country is great and growing. Nearly half of all renters pay an excessive share of their income for housing. And the crisis is most acute for the poorest households.

Simply put, we have a severe shortage of affordable rental homes. Nationwide, there are more than 11 million extremely low-income renter households, but only 4 million rental homes are available and affordable to them. This shortage continues to grow as hundreds of thousands of new renter households enter the market each year while we lose countless affordable homes to conversion and obsolescence.

The housing crisis impacts working families, seniors, people with disabilities, and so many more: those living in high-cost cities, suburban neighborhoods, and rural communities. Coastal cities, like Seattle, are well-known to have extreme housing costs.

Low-income households in Utah also struggle to find affordable housing. Over 58,000 renter households in my State pay more than half of their income for housing, and we have a shortage of over 38,000 homes that are affordable and available to the extremely low-income households.

We are not unique. Every State confronts this challenge. This crisis will only get worse unless we act.

If current rent and income trends continue, the number of severely cost-burdened renters, those paying 50 percent or more of their income for rent, will reach nearly 15 million nationwide by 2025. That is a 25-percent increase.

The Housing Credit and Housing Bonds are the most effective response. These are highly successful, private-public partnerships with a proven track record. They are administered by publicly accountable HFAs that take seriously the responsibility for their operation and oversight that you have entrusted to us. States deploy these resources to respond to the needs we determine to be most pressing.

The Housing Credit and Housing Bonds create affordable homes for families, seniors, people with special needs, veterans, and those experiencing homelessness. The stable housing created improves lives by supporting better health, education, and employment outcomes. These programs also contribute to economic growth by creating jobs and generating tax revenue.

In Utah, we have had great success using the Housing Credit and Housing Bonds. We have made considerable progress, for example, in reducing our chronically homeless population. In fact, Utah Housing Corporation will devote 30 percent of our 2018 housing credit authority to supportive housing properties, moving us closer to the goal of ending chronic homelessness. But we still have significant work ahead as we continue to tackle family homelessness and help the many low-income households who pay more rent than they can afford.

NCSHA urges you to seize the opportunity of tax reform, or other legislation that may advance this year, to build on what works. We ask you to increase housing credit authority and make the other critical program changes you proposed in S. 548, such as facilitating the development of mixed-income rural and deeply income-targeted housing.

Current housing credit authority is oversubscribed by a measure of nearly three to one nationally. Meanwhile, reliance on the credit continues to grow as other Federal resources shrink and new demands are placed on the credit.

Finally, we ask you to mitigate any unintentional negative effects the changes you make to the tax code might have on the housing credit and bond programs.

Thank you for your commendable efforts to address the affordable housing crisis. I am honored to have had this opportunity to testify. We stand ready to assist you in any way that we can.

The CHAIRMAN. Well, thank you so much.

[The prepared statement of Mr. Whitaker appears in the appendix.]

The CHAIRMAN. Dr. O'Regan?

STATEMENT OF HON. KATHERINE M. O'REGAN, Ph.D., PROFESSOR OF PUBLIC POLICY AND PLANNING, ROBERT F. WAGNER GRADUATE SCHOOL, AND FACULTY DIRECTOR, FURMAN CENTER FOR REAL ESTATE AND URBAN POLICY, NEW YORK UNIVERSITY, NEW YORK, NY

Dr. O'REGAN. Thank you. Chairman Hatch, Ranking Member Wyden, and members of the committee, thank you for inviting me to appear today.

I want to begin by reminding people of a few facts about America's affordable housing crisis. As stated, the housing cost burdens are extremely high, particularly for renters. Nearly half of all renters were cost-burdened in 2015, and more than a quarter face severe cost burdens.

So they were spending more than 50 percent of their income on housing costs. These rates remain far above pre-recession levels, and the challenges are widespread, extending beyond high-cost cities and lowest-income households. At least 37 percent of renter households in each State across the Nation were cost-burdened in 2014, and the sharpest growth in cost burdens over the past 15 years has been among middle-income households.

And finally, housing supply is simply not keeping up with demand. Housing completions in the last 10 years were lower than any other 10-year period since the late 1970s. The rental vacancy rate is at its lowest level in 30 years.

So what to do about it? In terms of the Federal response and tax policy, the main lever is the Low-Income Housing Tax Credit, LIHTC. So I will focus my comments there.

With more than 30 years of LIHTC experience to build on, it is an opportune time for reforming and streamlining LIHTC. I want to highlight three critical areas for reform that are greatly facilitated by Senate bill 548, the Affordable Housing Credit Improvement Act of 2017.

First is working in a broader set of markets across a broader set of incomes. While LIHTC's Federal income limits are tied to 50 or 60 percent of area-median income, States are also required to prioritize developments reaching lowest-income tenants, and indeed, nearly half of LIHTC tenants have incomes below 30 percent of area median income, AMI.

Serving such households with extremely low incomes requires some form of additional rental assistance such as vouchers or other development-level subsidies. Yet those additional subsidies are in decreasing supply, may not be within the control of the housing agency or developer, and even if available, require coordination and layering across multiple funding streams.

Income averaging can help address these challenges as well as improve economic feasibility in different market settings. It permits a development to employ an average income cap of 60 percent of AMI with no household's income exceeding 80 percent of AMI.

Higher rents can be used to offset lower rents, and a broader set of incomes can be served, where the additional resources needed to reach low-income households come from within the finances of the development itself. This cross-subsidy will be useful in high-cost markets for developments that are a part of a mixed-income community revitalization plan, and in rural markets where it may be necessary to serve a broader set of income ranges to be economically feasible. This greater flexibility is one of the most important LIHTC reforms.

Permitting States to increase maximum basis boosts for serving extremely low-income tenants has a similar flexibility, providing resources from within the tax credit itself for reaching lowest-income tenants. And broadening the definition of difficult development areas to automatically include Indian areas would enable the credit to work in a high-need environment that has been underserved.

The second area is achieving locational goals. Siting LIHTC in higher opportunity neighborhoods or ensuring that LIHTC investments contribute to neighborhood revitalization requires two reforms contained in S. 548: prohibiting local approval and contribution requirements which can act as local vetoes, and clarifying the

States' authority to determine the definition of a community revitalization plan.

The third area is preservation of existing affordable housing, which is a key and potentially cost-effective strategy for narrowing the demand-supply gap. This would be greatly aided by the establishment of a permanent minimum for the 4-percent credit.

Finally, on LIHTC resources, expected declines in the corporate tax rate are estimated to decrease LIHTC resources by up to 17 percent in the future. Failure to increase the per-capita allocation is equivalent to cutting LIHTC resources relative to recent years. Given the breadth and depth of the affordability issues across the country, now does not seem a time to withdraw Federal resources for affordable housing.

Thank you.

The CHAIRMAN. Well, thank you very, very much.

[The prepared statement of Dr. O'Regan appears in the appendix.]

The CHAIRMAN. We will now turn to Dr. McClure.

STATEMENT OF KIRK McCLURE, Ph.D., PROFESSOR, URBAN PLANNING PROGRAM, SCHOOL OF PUBLIC AFFAIRS AND ADMINISTRATION, UNIVERSITY OF KANSAS, LAWRENCE, KS

Dr. MCCLURE. Chairman Hatch, Ranking Member Wyden, members of the committee, thank you for the opportunity to address you on this very important topic.

The Low-Income Housing Tax Credit program is the Nation's primary affordable housing production program. It is a good program, but it is one that is in need of improvements to make it perform better. I would like to make three observations about the performance of the program and use those observations to support recommendations to help it be a better fit with current housing market conditions.

The first issue answers the question, "Does the Low-Income Housing Tax Credit program produce units in the price range where there is a shortage of units?" And here, sadly, the answer is "no."

Generally rents on tax credit units fall in the range of $500 to $1,000 a month. If a household is to spend no more than 30 percent of income to afford these units, these incomes need to be in the $20,000 to $40,000 per year range.

When we examine rental markets across the Nation, we find that there is, in fact, no shortage of units in this price range. Rather, the number of units is far in excess of the number of households with these incomes.

When we shift to the lowest tier and we look at the rental markets below this one, we see there is a significant mismatch. The number of households with incomes below $20,000 is far in excess of the number of apartments available for under $500. What this means is that the Low-Income Housing Tax Credit program is adding units to the market segment that already is in surplus, but is unable to reach far enough down to the households who suffer from a shortage.

So a first reform would be to ask State housing finance agencies to exercise greater rigor in their market analysis and to certify the need for each tax credit development supported by independent, not developer-driven, market analysis.

A second reform would be to permit State housing finance agencies to exchange tax credit authority for voucher authority. The vouchers could be freestanding, where that is appropriate to the marketplace, or they could be attached to the project. The vouchers would permit a poorer population to afford the unit, with the tenant contribution importantly set at 30 percent of their income, not at the flat rent. This would eliminate the cost-burden for these households.

The second issue seeks to answer the question, "Does the Low-Income Housing Tax Credit program add new units to tight markets and rehabilitate existing units in soft markets?" And the answer here is "not very well."

Typically, the program should add new units where we have tight markets, very low vacancy rates, and should rehabilitate existing units in soft markets where we have very high vacancy rates. Built into the tax credit program is an incentive that favors new construction. Nine-percent credits are awarded against new construction costs; 4-percent credits are offered against rehabilitation costs independent of market conditions. Developers have responded appropriately by developing 45 percent more new construction units than rehabilitation, favoring new construction whether it is a tight, normal, or soft market.

This problem can be rectified by reconfiguring the benefits of the tax credit program to favor rehab in soft markets and to permit new construction only where a market is very tight or is eliminating severely dilapidated units for replacement.

The final point asks the question, "Does the Low-Income Housing Tax Credit program support mixed-income housing?" And sadly, again, the answer here is "no." Research demonstrates that projects wholly populated by the poor are not good for the households, not good for the projects, and not good for the surrounding neighborhoods. Mixed-income housing is a much more beneficial format for all concerned.

The tax credit program provides no incentives for mixed-income housing. As a result, 76 percent of all tax credit developments are occupied entirely by subsidized low-income households. Fewer than 3 percent are configured with more than one-half of all units at market rates.

The program can be improved by reconfiguring the benefits of the tax credit program to favor mixed-income developments and prohibit wholly subsidized developments, except in very distressed markets were mixed-income developments are not feasible. The tax credit program remains an important tool for resolving the Nation's affordability problems. With improvements, it can be made better.

Thank you.

The CHAIRMAN. Well, thank you.

[The prepared statement of Dr. McClure appears in the appendix.]

The CHAIRMAN. Mr. MacDonald, we will turn to you.

STATEMENT OF GRANGER MacDONALD, CHAIRMAN, BOARD OF DIRECTORS, NATIONAL ASSOCIATION OF HOME BUILDERS, WASHINGTON, DC

Mr. MACDONALD. Thank you. I appreciate the opportunity to testify today.

My company specializes in construction and management of affordable rental housing. We currently own and manage 4,700 units throughout Texas. For the past 20 years, I have built affordable rental housing with the Low-Income Housing Tax Credit.

We are here today because the housing affordability has reached crisis proportions. The number of renter households who are severely cost-burdened—meaning they pay more than half of their monthly income on rent—is at an all-time high of 11.4 million people. This is one in four renters.

The first step to solving this crisis is to pass Senate bill 548, the Affordable Housing Credit Improvement Act of 2017. I want to thank Senator Cantwell, Senator Hatch, and all the bipartisan cosponsors. Bipartisanship seems to be rare these days, and I hope we can all unite around this bill and take action this year.

The challenge we face is inadequate supply to meet the growing demand. S. 548 will increase the supply, most noticeably by boosting the tax credit allocations by 50 percent; in addition, creating the 4-percent floor will allow more units to be preserved and developed using housing bonds.

Our housing stock ages. The first tax credit projects are now 30 years old. Preservation and rehabilitation is a cost-effective tool, and fixing the 4-percent credit will really help that.

Enacting this bill is expected to result in an additional 400,000 tax credit units over the next 10 years. That added construction activity will increase the Federal tax revenue by $11.4 billion.

To get to the root of the crisis, we need to look at the challenges facing developers. There is no magic wand to erase the basic development cost. Fees, regulatory compliance, modern building and energy codes, building materials, land and labor costs determine what rents are needed to make a project viable.

The bottom line is, if we want to increase the supply of affordable rental housing for lower-income households, it is financially impossible to do without the tax credit. The tax credit is the most successful affordable housing production program in our Nation's history.

Part of the success is the advantage of creating it in the tax code. Investors have the confidence and the predictability of the tax code, which ensures a fairly constant supply of affordable housing. And tax credit communities outperform the rest of the multifamily sector in the annualized foreclosure rate. This rate is less than one-tenth of 1 percent, but it lacks the resources to keep up with demand.

Without a sizable investment in our housing stock, particularly as older units reach obsolescence, we risk a worsening problem. Rental housing demand remains solid and is expected to grow even stronger. Absent new supply, this demand will increase rents and worsen the affordability issues we now have.

We also need to recognize the important role affordable housing plays in our communities. I see how affordable housing creates stability for my tenants and their families. My properties also help revitalize neighborhoods and break the cycle of poverty that starts with access to stable and affordable housing.

The housing affordability crisis affects our economy as well. Housing affordability is critical in areas experiencing robust economic growth, but our fellow citizens cannot afford to live where the jobs are, because we are just creating a divide based on housing costs.

Some criticize the program for not directing more affordable housing to higher-income areas. Let me shed some light on these challenges that I face as a developer.

In Texas, unless you have the blessing of the local community to put an affordable housing project there, the State agency will never award me an allocation. In many higher-income areas, as soon as you utter the word “affordable,” the discussion often turns ugly and may take on racial overtones.

This is the reality affordable housing developers face every day. Fortunately, some relief is possible. Senate bill 548 will prohibit States from requiring special local approval of tax rate developments. This will ensure that if the zoning allows it, an affordable project will be treated just like any other development.

We have an opportunity to do something that not only makes good economic sense, but will uplift the lives of millions of Americans. I greatly appreciate the bipartisan support for 548 and urge the committee to pass it as soon as possible.

The CHAIRMAN. Well, thank you so much.

[The prepared statement of Mr. MacDonald appears in the appendix.]

The CHAIRMAN. You have been an excellent panel, and I think we have learned a lot from you.

Let me just ask this question of Mr. Whitaker and Mr. MacDonald.

One reason I support the Low-Income Housing Tax Credit program is that it keeps decision-making on affordable housing away from a centralized bureaucratic agency in Washington, DC and allows decisions to be made within the communities where the housing is needed, while involving the private sector.

Can both of you discuss how that helps you decide what projects to build and how the public-private partnership aspect of the program promotes more spending in affordable housing than would happen if only the government was involved?

Mr. WHITAKER. In Utah, we offer up two different opportunities for developers, syndicators, advocates, public entities, private entities, and nonprofits to come in and talk to us. There is a mandatory public hearing that we hold, and we also hold another one earlier in the session to get input on how we should run our program, specifically how we should modify our qualified allocation plan.

So we get a lot of input from the industry partners through this effort. Obviously, they do not agree with themselves all the time, and so we have to ferret that out. But we also look at needs that are happening.

So a moment ago I mentioned that we are going to set aside 30 percent of next year’s allocation for supportive housing, because we know there is a horrendous homeless issue that is taking place right downtown in Salt Lake City right now, and that is a problem that cannot be solved if there is not some permanent place for them to be housed.

So we work diligently with governmental entities and the private sector, try to find out how we can utilize these very scarce resources the best that we can to meet the needs of our population.

The CHAIRMAN. Well, thank you.

Mr. MACDONALD. And I would just like to add to that, that every State has its own qualified allocation process which allows a decentralization of how the tax credits are allocated. They are allocated more based on what the citizens of a specific State need.

Every State's needs are slightly different than another, and it allows them to be addressed based more on the economic trends in the State, the housing trends in the State, and the demographic changes that are always occurring across a State. For example, my home State of Texas is a large State, and we go from one very rural area to a very urban area, to the necessity for family housing, to the necessity for senior housing. So it lets everything stay in balance.

Our local State agency did a wonderful job this last year of changing the balance between families and senior housing. And it was very, very important, and it is an extremely well-balanced process because of just what Mr. Whitaker said, that we are able to address all of these issues on a local State basis with lots of public and private input, public hearings, so the citizens and everyone get to benefit from those decisions.

The CHAIRMAN. Let me ask another question for Grant Whitaker.

One of the series of reports that the GAO has published on the Low-Income Housing Tax Credit recently notes that it does not appear that the IRS is doing very much oversight of the program. And while Federal oversight of this program is important, I know that there is much oversight that takes place at the State housing authority level.

As president of the National Council of State Housing Agencies, and especially as president and CEO of the Utah Housing Corporation, can you discuss how you ensure that your credit allocation is wisely and prudently awarded and how you monitor the use of these credits?

Mr. WHITAKER. Starting with the allocation process, we have a process that is outlined very clearly in our qualified allocation plan. It is based on those projects that score the highest in the pools that we set aside for them, how that is allocated, so the best projects are the ones that are awarded credits.

In terms of the compliance of the properties, we have a team of compliance auditors who look at properties on a more regular basis for those that have problems, that exhibit problems in their properties, and less often at those that are in full compliance as we go around.

But this team looks at their financial records, it looks at the rent rolls, it looks at the physical conditions of the properties. We do submit reports to the IRS, those that will imply that if they do not fix these things, the tax benefit can go away from the investors.

We make sure that the development company that is managing the projects know that that is happening, and we think we get some pretty darn good compliance from our projects in Utah.

The CHAIRMAN. Well, thank you so much.

Senator Wyden?

Senator WYDEN. Thank you, Mr. Chairman.

Thank you all. It has been an excellent panel. I want to ask first about some questions that relate to the overall tax reform puzzle, because, as you know, these pieces are interrelated.

Mr. Whitaker, for you—the Low-Income Housing Tax Credit is a tax credit that is often claimed by corporate partners like banks in qualifying for low-income housing tax projects. Reducing the corporate tax rate could reduce the value of the Low-Income Housing Tax Credit and thus investor demand.

We have heard some talk about the credit declining by up to 17 percent. So what do you think needs to be done to make sure that, as we get into tax reform, the credit is kept whole?

Mr. WHITAKER. Thank you, Senator.

Yes, we do see that. We have already seen that, though not so much in Utah. I think we are a little bit blessed with the CRA-hungry industrial banks, so our credit pricing has not gone down as much as it has in other areas, but we do recognize through the National Council of State Housing Agencies that this is very critical to some of the areas. Some of the HFAs are handling their allocations in different ways to try to get that out there so that the properties do work, so that they do pencil out.

In going forward with S. 548, we recognize that there is not a mechanism in their right now that would enable us to increase the benefit of the tax code such that, as pricing might go down on tax credits, as corporate rates go down—there is not a mechanism built in there, but we think that there are some opportunities for that to happen.

Senator WYDEN. Why don't you, for the record, get us those ideas, because I think one of the areas I am going to concentrate on is trying to make sure that, as we look at these critically important needs, like increasing the supply of low-income housing, that we make sure that it fits into the tax reform puzzle and we do not end up having an inadvertent problem as a result of, say, a reduction in the corporate rate lowering the value of the credit.

Dr. O'Regan, let us go to you.

In my town hall meetings at home—I go to every town every year—I hear from folks at home who are just apoplectic about having to live in one place and then drive hither and yon to get to work, to take their kids to school, buy groceries, get medical care, and so on. I am always struck by how people in politics just preach morning, noon, and night about family values. It is pretty hard to get family values when you spend 2 hours a day just commuting, driving family members to the places they need to go.

What are your ideas about how we could do more in a practical way to link low-income housing with transportation and services and the like? I mean, you do not want to just do some kind of one-size fits all national mandate from Washington, DC, but you do want to say, let us really wring the value out of this low-income credit. I mean, I think that is really what Senator Cantwell and

Chairman Hatch are trying to do, to wring every bit of value out of this low-income credit.

Do you have any thoughts on what could be done to make sure that, when you build this housing, it is more closely tied to the services like transportation, and schools, and health, that low-income folks need?

Dr. O'REGAN. Thank you, Senator.

Yes, this is a big issue. We talk about the cost of housing, and we should be talking about the cost of housing and transportation when we think about what it is that families pay in order to make their life work.

There are some States that have been very aggressive in this, in their qualified allocation plan, where they use their ability to apply basis boosts and priority points in a way that prioritizes not just low-poverty neighborhoods, but neighborhoods that have good access to transit and good schools. So I think there is a lot that could be learned from what States have done in the last 5 to 10 years.

I also think you need to be getting a broader group of stakeholders in some of these meetings, because employers really care whether or not the workforce is within driving distance. So they have a role to play in making sure that the collection of resources, not just LIHTC, but local resources are where the housing is located and the transit dollars to make sure that they are being used in a way that works well for the whole community.

Senator WYDEN. Okay.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. Yes.

Thank you, Mr. Garcia-Diaz, for GAO doing some studies I have asked you to do. So I have some issues I would like to have you comment on.

The organization has found that basic LIHTC data, including credit allocations, certification information, building dispositions, and program noncompliance, is either not collected or rarely used. So could you describe what steps were taken to gather the information on how this lack of data impacted GAO's ability to analyze basic program information?

Mr. GARCIA-DIAZ. Thank you, Senator.

Essentially the LIHTC program, from our perspective, is a very hard program to review. There is a lack of information at the Federal level, such as basic information about allocations awarded to projects and placed-in-service dates, which are critical requirements in the program, making this program difficult for us to review. What is more, when we asked the IRS to provide us information on how many properties had a recapture because of noncompliance, the IRS was not able to provide us with that information.

So we are very concerned that, on these basic accountability measures, the IRS and no one else in the Federal Government really has an idea what is going on. The program lacks basic accountability requirements that we would expect of any program, and especially one as important as this one.

Senator GRASSLEY. Okay.

GAO is currently examining development costs of LIHTC properties. What are some of your preliminary observations about this data that you are collecting and the types of activity allocating agencies are doing to manage costs?

Mr. GARCIA-DIAZ. So, on the first part of your question, we are developing a database on development costs of LIHTC projects for 12 different allocating agencies representing the period where properties were placed in service between 2011 and 2015. This information does not exist in a central location. So we have had to go to individual allocating agencies to collect it.

It has taken us well over a year and a half to build this database, but we have amassed about 1,900 projects representing 122,000 units. And we hope, early next year, to be able to report on our cost estimates. Our plan is to meet with the individual allocating agencies and share what we have done with the data, so that we can help these agencies build a capacity to analyze cost data and assess the reasonableness of their costs.

Right now, in our interviews with the 12 agencies, we are seeing a range of practices regarding assessing the reasonableness of project costs. Part of that is driven by the availability of analyzable data at the agency level.

So we have identified certain agencies that may have some cost limits that they impose on project applications, yet they may not be assessing the reasonableness of the costs. Other agencies are using the analysts' judgment on whether costs are reasonable. Then finally, you have another group of agencies that are actually doing pretty sophisticated analysis, using statistical regressions for instance, to better understand their data.

So we are seeing quite a bit of variety in the sophistication of the agencies in analyzing costs and assuring that credits are used as cost-effectively as possible.

Senator GRASSLEY. Okay.

We often hear from LIHTC industry participants that syndicators provide the necessary program oversight because they have the vested interests in ensuring that programs run effectively. So, Mr. Garcia-Diaz, do you believe that this is sufficient oversight?

Mr. GARCIA-DIAZ. I would not say it is sufficient. It is an important component of oversight. The syndicators are a very important player in this program, and actually if you look across past affordable housing programs, we have never had a private entity like this that monitors projects and performs audits and reviews and other kinds of asset management services.

However, I do not think this relieves the Federal Government of the responsibility of having basic performance information about LIHTC and, particularly, understanding the extent of noncompliance.

Senator GRASSLEY. Yes.

For Mr. Whitaker and Dr. McClure: in his written statement, Dr. McClure raised—this will be my last question—Dr. McClure raised concern that State housing agencies fail to conduct rigorous market analysis to build LIHTC units in areas with the greatest need. As a result, he finds that most LIHTC projects are not being built in areas that experience a housing shortage.

So, Mr. Whitaker, could you first comment on whether or not you agree with Dr. McClure's concerns, and two, what policies are in place at State housing agencies to identify where projects are most needed?

Mr. WHITAKER. Thank you, Senator.

I think, first of all, I can speak mostly on behalf of my own State. However, the Council of State Housing Agencies is putting together, with participation by all allocating entities, some best practices that would probably improve those that are not doing quite as well.

But in terms of what we require, we mandate that we get a market study with the application that is submitted for the tax credits. Market studies have to be fairly new. I think they cannot be more than 6 months old, or 90 days. I am not sure which. But we do look at those very carefully.

We also have some of the market studies done independently in some areas where we are concerned about what is happening. So there are a couple of rural counties in Utah where we can see the rent rolls, and some projects that we have funded with tax credits a number of years ago are having high vacancy rates. So we do not accept applications in those counties.

So we are very careful about that. We have not seen the kind of problem that he described, at least in my State. So it is a little hard for me to describe what might be happening in other places.

Senator GRASSLEY. Thank you.

The CHAIRMAN. Thank you, Senator.

Senator Stabenow?

Senator STABENOW. Well, thank you, Mr. Chairman, for this very important hearing.

I first want to indicate my strong support for S. 548. I am looking forward to being a cosponsor. I know we are doing this in twos, a Republican and a Democrat coming on together. So I am looking forward to that, but I want to commend Senator Cantwell and yourself, Mr. Chairman, for this important legislation. I hope we are going to be able to move it through the process quickly.

I do have one issue that has come up, though, that, Mr. Whitaker, I thought I might ask you about, and if anyone else has any thoughts on it. But affordable housing is so critical, whether it is rental or purchasing, building, and so on.

We have had a very concerning issue come up in Michigan related to the Low-Income Housing Tax Credit. We have at least one developer who has essentially foreclosed on their own properties to try to avoid the affordability requirements under the tax credit.

Obviously, this is not what was intended, and you cannot just simply plan foreclosures so you can circumvent the commitments to affordable housing. However, only the Secretary of the Treasury has the authority to deem a foreclosure illegitimate for LIHTC purposes.

And formal guidance has not been issued on this. So as a result, we have Michigan families who are wrongfully losing access to affordable housing which is absolutely critical to them because developers want to charge more.

I wonder if this is something that you are seeing more broadly with members. And if so, what can we do to fix this?

Mr. WHITAKER. Thank you, Senator.

We have heard of it. It has not happened in Utah, and I understand Michigan has that problem. It may be unique, but possibly not either.

But we know that S. 548 may have some language in there that will help to correct that so that the allocating entities are the ones who can make that determination. We have had, I think, very good compliance in the State of Utah with maintaining those properties through the extended use periods and beyond. We require that the properties have a 50-year compliance period. So that is beyond what the Federal Government requires.

But we have not had any who have threatened to do that. I think it is possible that it could happen. So we welcome the steps that were taken in S. 548 to enable us to handle that as opposed to Treasury.

Senator STABENOW. Do you know if there have been discussions with Treasury or how they have reacted? Is this, at this point, isolated, do you think, to Michigan? Have you heard from other people? I am wondering if there is any real discussion going on about this.

Mr. WHITAKER. I do not think there has been much discussion, because I think it is fairly rare. We do know, and I have heard, that Michigan has that problem. So that is why I say, perhaps it is unique.

My understanding is that when Treasury has been notified of the problem, they have chosen to take no action.

Senator STABENOW. Thank you.

Well, we need to fix that process.

Mr. MACDONALD. If I may——

Senator STABENOW. Yes? Mr. MacDonald?

Mr. MACDONALD. If I may—in Texas, the State, in their qualified allocation process, detailed an identity of interests who could and could not foreclose. And it boiled down to, obviously, lenders need to have the preservation right to foreclose or a syndicator if they have someone who is not taking care of their asset like they should. But after that, it is just not allowed.

I think it is very similar—I understand GAO's problem in auditing the tax credit program. But what makes the tax credit program so wonderful is that it has 50 Qualified Action Plans, and it is very regionalized. It is not a one-size-fits-all program.

So a best practices idea like this or like what is being proposed in this bill could go forward and is maybe something that should circulate more to the other 50 States, like we have in Texas on this one. The decentralization has its negatives, but it also has its positives in that the program is customized for a region, for a State.

Senator STABENOW. Thank you.

And, Mr. MacDonald, on a different note, again, it is rental housing, it is affordable housing, it is also affordable purchasing and people being able to get into home ownership as well. I wonder—we all know what happened with the financial crisis, where we lost $7 trillion in home equity. I am sure it has happened in other places, but home values in some locations in Michigan—it was unbelievable, actually, how far they dropped. And people are just now coming back a little bit. Finally, with the recovery, they are starting to build up a little bit of equity in their home again.

When we go into tax reform, one of my concerns is that there are proposals that would limit the value of the mortgage interest deduction for families. With a major increase in the standard deduction, fewer taxpayers would itemize, as we know. And that means home ownership would not be a benefit in terms of the mortgage interest deduction unless you owned a very large home.

So this is also a concern to me. I wonder if you might talk about the different proposals and the impacts that they would have on working families who are finally starting to regain their equity after being under water for so long.

Mr. WHITAKER. Yes, ma'am. It is very important that the mortgage interest deduction be preserved. However, we also need to keep the same amount of funds flowing into housing that are generated under the existing tax code. There are several alternatives for that.

A first buyer home assistance purchase program is very, very important. And that is something that is administered on a Statewide basis too, through the housing agencies.

Additionally, there has been a lot of discussion in reference to a tax credit, a home buyer's tax credit and a home owner's tax credit, and that could be a very efficient way to augment the mortgage interest deduction as well.

Senator STABENOW. Thank you, Mr. Chairman.

The CHAIRMAN. Okay.

Senator Cantwell?

Senator CANTWELL. Is my colleague from Georgia next, Mr. Chairman? Are we going back and forth? Okay.

Well, thank you, Mr. Chairman. I so appreciate my colleague from Georgia and his help on all of this, and, Mr. Chairman, thank you for holding this hearing along with Ranking Member Wyden, and thank you for your work on this legislation.

I so appreciate everything our witnesses have said. I actually disagree with very little that has been discussed so far.

I want to point out that the reason I went to Chairman Hatch about this to begin with, Mr. Whitaker, was your great work in Utah on the veterans' homelessness issue, and the fact that you guys have driven that down to such a low rate or next to zero is just so impressive. In the United States of America, to take that population that we owe so much to and deliver for them on affordable housing—I so appreciate that, and I have a question on that.

But I did want to emphasize a couple of things in these points that were made. The first fact is that we have 15 million people, as Dr. O'Regan was talking about, and that the projections are getting worse. That 2025 number—if we do nothing, this is just going to be exacerbated. Several people mentioned the 25-percent increase in renters over the last 10 years, which is the largest on record. That is just unbelievable to me, unless you stop and think about the implosion of the economy during that time period, and then you realize, yes, those who were on the last rung of the ladder literally fell off the ladder. So there were no more rungs, and this 10-percent reduction, the lack of supply, that is the crazy thing. But I guess, Mr. MacDonald, you would say that is not so unusual either, because if you had an implosion of the economy, then you also had the lowest production of rental housing in 40 years, because of this crisis.

So I guess, if anything, you have illuminated for many of us things that we knew, that this is both an urban and a rural problem, that there are places like Jackson, MS or Baton Rouge that are just right up there with Miami and other places, and that there are places like Clark, IA or Douglas, NV—that it is everywhere.

So the one thing that I have not heard talked about is that—I have heard this number: that 90 percent of the affordable housing units are built with a tax credit. I do not know if somebody can clarify that information, but the majority of affordable units do use a tax credit. So when you look at that chart and you see that the number of renters is increasing, if we do not increase the tax credit, how are we going to get out of this crisis?

Also for Mr. MacDonald, I have heard that the discussion of tax reform has actually suppressed the amount of capital going into this, so that we are actually going to see in 2017 and 2018 a decrease in the amount of affordable housing at the very moment that we are at this crisis, and we know that the tax credit is the dial to help create more supply, and we are actually seeing a decrease just because people are waiting to see, or just because of this uncertainty.

So I do not know if anybody—if, Mr. MacDonald, you can address that or, Dr. O'Regan, if you can address that.

Mr. Whitaker, I do want to hear about the veterans success in Utah.

Mr. MACDONALD. Well, you are exactly right. After the November elections and the first thoughts of tax reform came out and the 15-percent tax bracket was announced, it had an extreme impact on credit prices. And it was mainly the fear of the unknown. People did not realize where it was going; the syndicators were petrified.

And they went to a stop. There was a point where they fell in price, and then they just would not purchase credits at all. And it came to a grinding halt.

I think that now that there has been more discussion of tax reform, the reality is that we are not going to have a 15-percent rate, in all likelihood. You people know better than I, but it is probably more in terms of a 25-percent rate. So it is not going to be as dramatic. It has softened it some.

We have seen some recovery in prices. But I will tell you that the fixing of the 4-percent rate, as this bill does, is the perfect way to fix that problem, because it puts the money back into the program even if the credit price does not recover. And by fixing the 4-percent rate and getting the bond prices back up, you pick up 25 percent more funds, so you more than offset the loss of what the credit price is.

Senator CANTWELL. Dr. O'Regan, is this the primary tool that we have for fixing this crisis?

Dr. O'REGAN. This absolutely is, on the affordable side of the market. So I had heard the 90-percent number. I have not checked it myself, so I will say it is in the range of that, in terms of the role that LIHTC plays for the creation of affordable housing at the low end of rent.

So what we know is that when markets are responding, they are responding and producing at the very high end. The bulk of units that come into the low-rent market are what economists call "filtered down." They are units that exist, that as they age, their value goes down, and they are lower rent.

The tighter the housing market, the less likely that units filter down. In fact, in very tight markets, you see them filtering up. So units that were affordable are no longer affordable, and the production that comes in is at the top of the market.

So what you need to do is have a mechanism for producing along a range of price points, and it is only with these types of subsidies that you are going to relieve any of the pressure at the low end of the market.

Senator CANTWELL. So you are saying, basically, the only thing we have to do is to turn this dial if we think we are going to make a dent?

Dr. O'REGAN. We need to turn this dial. And I think a point that Professor McClure was making is, to the extent that we want the dial to go as deep as 30 percent of income, we want some of the other reforms that are in your proposal and in S. 548 to be able to have a little bit of the ability to reach deeper in the income level.

Senator CANTWELL. Well, I cannot emphasize enough how this is a crisis across many parts of our country. I can tell you, from Seattle to Walla Walla, the housing crisis is real.

Many times it is trying to help either the senior population or the veteran population. So, Mr. Whitaker, how did you address the veteran population in your State?

Mr. WHITAKER. It was in conjunction with a housing authority. The Salt Lake County Housing Authority, specifically, put an application into us for 9-percent credits. And one of the things that they proposed is that a portion of those units be set aside for the homeless.

So they got points for that, and they have rents at levels such that people coming out of a homeless situation could afford them, or they would have set aside vouchers for them. As it turns out, this property was such a unique property because, initially, it was not even welcome in the neighborhood. Since it has been built, it is a real jewel, and it is appreciated very much.

Many of the residents who are residing there are those who have been veterans who were formally homeless. And they have a good comradery going there. Also, the service providers who need to be there for issues related to addictions and mental health cases and so forth, they have a single place to go where they can help a lot of people in one spot.

That has made this project, in particular, successful. But we have quite a number of other projects that are doing something similar.

Senator CANTWELL. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Isakson?

Senator ISAKSON. Thank you, Mr. Chairman.

Mr. MacDonald, of the 4,700 units—I believe you said you had built 4,700 units, low-income housing units. How many of those do you own as an owner with tenants?

Mr. MACDONALD. Forty-seven hundred.

Senator ISAKSON. All 4,700?

Mr. MACDONALD. Yes, sir.

Senator ISAKSON. Were the tax credit program not available, would you have had that big an investment?

Mr. MACDONALD. No, sir. We would have never had the ability to raise capital and offer a portfolio with affordable rent. It would just not have been a viable alternative at all.

Senator ISAKSON. The reason I make that point is, Senator Cantwell is exactly right. The only way you meet the future shortage, the existing shortage today, is to have the program that attracts the money into it. If you do not do what you need to do, the money will go somewhere else, and then you will have a bigger problem than you had before. I think that program is great.

So all 4,700 were rental units in multi-family buildings?

Mr. MACDONALD. Some are multi-family buildings. We also have some single-family. We did a neighborhood revitalization program in San Angelo, TX where the city gave us the lots for $1,000 and we built 36 scattered single-family homes there, for example. And it jump-started a community revitalization in the whole area. People started fixing up the entire area because of it. We do both multi-family and single-family.

Senator ISAKSON. Mr. Chairman, there is one point I want to make. There are two tax credit programs created by Congress. One is the Conservation Easement Tax Credit program and the other is the Low-Income Housing Tax Credit program, both of which have caused a lot of land to go into conservation, and a lot to go into low-income housing.

There have been some attacks on both of those programs in terms of the syndicators and others—questioning their validity. So one of the things we have to be sure we do not do—we want to make sure the integrity of the programs that raise the money by the syndicators is intact. We want to make sure there is no misrepresentation or other mishandling of the funds.

But we have to realize that it is such an attractive program. It is the only way we are going to have money flowing into two things that meet the test of what we want to give a tax credit for, and instead of the government taking tax money and investing it into land to buy for conservation easements, or the government getting into the business of building housing projects, we are incentivizing the private sector to build projects, utilizing the capital that is invested by individual investors who recover their capital investment by tax credits earned over time. Am I not correct?

So it has a multiplier effect in terms of what it does for generating more moderate-income housing, and it is a solid program. It also has about as many motivations as you can have in a program to incentivize the developer and the owner to take care of the property to make sure it does not become a blighted property and to make sure it is a great property. Is that not correct?

Mr. MACDONALD. Absolutely, sir. We have what seems to be a continual audit. We are being examined by our lenders, by our syndicators. If we have section 8 vouchers, we are being reviewed on those.

And then, of course, our State agency is out every year, goes through our books and records, notices what we are doing with our rents, makes sure it does a property evaluation, does a complete needs assessment for our property, gives us 90 days to fix it. If it does not get fixed, they give you an 8609 and we lose our tax credits.

We take it very, very seriously. I realize that is hard to track from a GAO standpoint, but on a local basis there is a lot, a lot of oversight to make sure that the compliance in this program is being carefully, carefully monitored.

Senator ISAKSON. In terms of cost of your units, what percentage of the cost of the average unit that you build goes to regulatory costs like impact fees and things like that?

Mr. MACDONALD. Approximately 25 percent.

Senator ISAKSON. Senator Wyden asked a question a little bit ago—he is gone now. I will try to remember to tell him this, but when we talk about what local governments can do to help make it easier to bring the project to fruition and bring housing programs in, they can look at the regulatory burden of costs on the developer to build the project in and of itself.

Mr. Whitaker, I think, was talking about the homeless veterans program. I chair the Veterans' Affairs Committee. We had a family, a veteran in 1906 who gave 300 acres in West Los Angeles to the VA. That zip code is now 90210. So it is a pretty good location, if you know what that means, Beverly Hills.

They are going to use a lot of that land to build housing for veterans who have been homeless. And it is going to be because the local government is going to exercise some authority it has in zoning and land use restrictions to motivate and incentivize the private sector to build housing so the veterans will have the housing on that project.

So, it is a great way to provide housing. I am a big supporter of Ms. Cantwell's program. It is a good program. It has passed the test of time. And if we do not do it, I cannot think of any other way to get private capital flowing to generate the housing necessary to house the American people.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Menendez?

Senator MENENDEZ. Thank you, Mr. Chairman.

I think this is an incredibly important hearing. I appreciate my colleague from Washington driving the opportunity for the hearing, and I want to make the case for her specific legislation by speaking about some of the other issues that we have in housing that only strengthen the need for her legislation.

In New Jersey and across the Nation, low-income households, including seniors living on fixed incomes, people with disabilities, and families with children, are struggling to find affordable places to call home. For the lowest-income families, New Jersey faces a shortage of more than 212,000 homes that are affordable and available.

That problem is exacerbated by the fact that only one out of every four eligible low-income households receives Federal rental assistance. So I cannot help but point out that the President's fiscal year 2018 budget request slashes HUD's funding by more than $7 billion. Now that would turn this crisis into an epidemic.

By eliminating programs like CDBG and HOME, cutting public housing funds to the bone, eliminating a quarter-million housing choice vouchers, failing to provide sufficient funding for project-based assistance renewals, and requiring low-income families, seniors, and people with disabilities to pay more in rent, the President is clearly not in tune with the housing crisis that we have in this country.

So, Mr. Whitaker, could you comment on how the elimination of the Community Development Block Grant program and the HOME Investment Partnership would impact the affordable housing crisis?

Mr. WHITAKER. I can surely talk about the HOME program, because that is what funds a fund in Utah that we call the Olene Walker Housing Loan Fund. Olene Walker was a former Lieutenant Governor, and ultimately Governor of the State of Utah, who had a very ideal outlook for affordable housing.

This funds this program, and this provides the gap funding. So when we have a project that is submitted to us, in order to score points, one of the things that they will do is to offer up some of the units for the very, very low-income, extremely low-income—below 35 percent AMI, typically at 25 percent AMI.

Those units receive rents that are very low, and that does not contribute a lot of revenue to the project. So they are funded with their mortgage, and they are funded with tax credits. But those units at that very low level have a very difficult time supporting themselves. So they go to this other funding source and use that for gap funding. They get soft seconds—sometimes grants, but usually soft seconds. And that HOME money is what keeps that program going in Utah.

I think that is the same as it is for other areas. CDBG, I am not so familiar with.

Senator MENENDEZ. I appreciate your answer on HOME.

Professor O'Regan, how would you view affordable housing efforts? Would they be hampered if Congress were to enact large-scale cuts in the housing voucher program and create greater income payments by low-income households?

Dr. O'REGAN. Thank you, Senator; yes. There is an incredible overlap between the units that HUD funds and developments that also use the tax credit. About 47 percent of LIHTC units receive some type of rental assistance, and most of that is project-based or voucher-based.

LIHTC owners are not allowed to discriminate on source of income. So the LIHTC stock itself is critically important for voucher households as they go around and try to find units that they can rent.

The HOME funding is one form of the gap funding. CDBG is also paired with broader community redevelopment. And LIHTC is usually the big infusion of capital into those plans.

So the streams on the ground—up here at the Federal level, these are very separate. On the ground, these are tools that you are using in your communities to be able to address the issues. And the flexible tools, such as HOME and CDBG, those going away would make it even more difficult, because you are looking for things that can work well with the plans that you are putting together.

Senator MENENDEZ. Let me follow up on that. The Low-Income Housing Tax Credit program sets income limits at 50 percent, 60 percent of area median income; however, extremely low-income households have incomes that are less than 30 percent of area median income. For those households, the vast majority of which face severe cost burdens—paying more than 50 percent of their incomes on rent—the Low-Income Housing Tax Credit alone is not enough to make a home affordable.

You highlight this issue in your testimony. Can you explain why additional subsidies, be they project-based, tenant-based, rental assistance, are critical to ensuring the lowest-income families are served by the Low-Income Housing Tax Credit?

Dr. O'REGAN. Yes. So I think the point that Mr. Whitaker made is, there is a gap. There is a penciling gap; right? So if the rents work out financially at 50 or 60 percent of AMI, to go all the way to 30, you are going to need something else.

But I will point out, 59 percent of tenants in LIHTC units have incomes below $20,000 a year. So right now, State HFAs are piecing together a collection of things—a lot of it is HUD funding—to be able to reach deep. So as the HUD budget changes, you are not going to see these units able to reach down. So we are going to see an increase in rent burdens among that group purely outside of the LIHTC allocation, because of other parts of what is happening in the budget.

State and local jurisdictions put their own money in. As other money goes away, their budget is going to shift. They may not have the ability to put their resources in. And it is this kind of patchwork that makes the system work as well as it does currently.

Senator MENENDEZ. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Scott?

Senator SCOTT. Thank you, Mr. Chairman, and thank you to you all for being here this morning.

Mr. MacDonald, affordability and accessibility go hand-in-hand when it comes to housing. Fannie and Freddie use an old credit-scoring model that does not take into account rent, utility payments, your cell phone bill payments, things that actually show a broader swath of the credit history of the borrower.

Why is it so important for the GSEs to start considering this data? Who stands to benefit? And I will note that Senator Warner and myself have legislation that we introduced today to hopefully help the GSEs update their credit scoring model.

Mr. MACDONALD. Senator, I want to thank you for the legislation you filed, and we really look forward to studying it. It is an issue that has been at the forefront for home builders for quite some time, probably since 2008, when the downturn of the economy came. And we were trying to find out why all of a sudden we were having so many perspective home buyers who were losing the opportunity to purchase homes.

We sat down with our economics department—and we have four or five of the smartest Ph.D.s I have ever met in my life—and we said, "Tell us how FICO works." Sir, after about 30 days, they came back, and they could not figure it out.

We need a system that is transparent so that you know, and you know, and you know exactly how that score that controls your life and what kind of housing you are going to be able to provide your family is made up, so you know what to do and how to improve it, how to work with it, how to work toward having good credit.

Good credit should not be an accident. It should be something that you work at as a goal. And if you understand the rules that you are playing by, it is a lot easier to play the game.

Senator SCOTT. Absolutely. Thank you so much, sir.

Mr. MACDONALD. Yes, sir.

Senator SCOTT. I appreciate your passion as well.

Mr. Garcia-Diaz, I have a question for you on a different topic. So often in the discussion about home ownership and affordability, manufactured housing just goes unnoticed. In South Carolina, one out of every five homes is, indeed, a prefabricated home, the highest percentage in the Nation.

At the same time, the average household income for a manufactured homeowner is around $30,000, versus about $52,000 nationwide. Folks who buy manufactured housing are the least equipped to deal with rising costs.

A 2014 GAO study found that high financing costs often keep these homes from being even more affordable. What conclusions did the GAO reach on improving manufactured homes' affordability?

Mr. GARCIA-DIAZ. I am aware of the report that you are referring to. I do not have an exact answer, but I will be more than happy to reach out to your staff and provide that information related to our work on financing manufactured homes.

Senator SCOTT. Thank you, very much.

Back to you, Mr. MacDonald—I liked your passion, so I am going to ask you another question here.

You testified that many home builders struggle to fill vacancies because the workforce lacks the skills necessary, whether it is welding, carpentry, plumbing. This shortage of qualified workers prevents housing inventories from keeping pace and ultimately leads to higher costs. I have worked on legislation around apprenticeship programs. I think that one of the ways we improve the housing inventory is to help folks earn and learn at the exact same time on the job sites.

How can we ensure more Americans are ready for the skilled labor jobs that are high-paying?

Mr. MACDONALD. The National Association of Home Builders this year is sponsoring 8,400 people in the apprenticeship programs. These programs are exceptionally important.

The average age of a master plumber in Texas is 61 years old. The average age of a master electrician in Texas is 59 years old. That is a recipe for disaster.

We are not having the skilled people come into our workforce. Part of it is, we have to go back to moms and dads and school counselors who will tell young people that it is not a bad thing if you do not go to college, if you go to a trade or technical school.

We also have to start offering more trade and technical school education in our high schools for people to use so that they can develop the job skills where they can make a wonderful living and have a wonderful career, possibly own their own business, and then not be burdened by student debt.

Senator SCOTT. Absolutely.

I know I am running out of time, Mr. Chairman, but I will close by saying that there is dignity in all work. I recall back in my days in high school, just about a few years ago—Mr. Brown was there with me in a different State—the reality of it was, we had shop when I was in high school.

We need to restore dignity in all work and encourage every facet of this society to participate and encourage the fact that there is strong income as a welder. I understand in Texas you can make over $125,000 a year as a welder.

Mr. MACDONALD. I am a licensed welder. Thank you. [Laughter.]

Senator SCOTT. Exactly. It works. So we have problems that we can solve if we work together towards those solutions.

Thank you very much to all of you guys for being here today.

The CHAIRMAN. Well, thank you, Senator.

Senator Brown?

Senator BROWN. Thank you, Mr. Chairman.

I am flattered that Senator Scott thinks we were in high school at the same time, but thank you for that.

Senator SCOTT. I need your cosponsorship on the legislation. There is that. [Laughter.]

Senator BROWN. Nice try.

Thank you, Mr. MacDonald, for your comments about the importance of the trades, and thank you for your passion about that and in reminding people how important it is that young people become carpenters and machinists and sheet metal workers and plumbers and electricians.

A couple of comments, and then I have questions for Dr. O'Regan and for Mr. Whitaker, if I could.

As we know, families burdened by high housing costs have fewer resources, obviously, to meet other needs like food, transportation to work, medicines, and may face homelessness and eviction. As a sociologist, Matthew Desmond says, "The rent eats first."

A person with a full-time job would need to earn an hourly wage of $21 to afford a modest two-bedroom rental at HUD's national average fair market rate. This housing wage, for want of a better term, varies, along with housing costs, across the country. The fact remains there are only 12 counties in the U.S. where a full-time worker earning Federal minimum wage can afford a modest one-bedroom rental home.

In my home State of Ohio, a more affordable State than many others, the average housing wage is still $15. The State's minimum wage is $8.15. The mean renter wage is $12.87.

My wife and I live in Cleveland in zip code 44105. Ten years ago that zip code had more foreclosures than any zip code in the United States of America. So we see every day the blight that comes from people not being able to afford decent places to live.

The Low-Income Housing Tax Credit is a critical tool—as you know from your service in the administration—and developing affordable housing certainly should be protected and expanded, regardless of whether tax reform develops into a real bipartisan process or remains the partisan fantasy that people here talk about.

Yet all of you here today as witnesses say the mismatch between housing costs and wages goes far beyond the cost of building and operating affordable units.

I am the ranking member of the Banking, Housing, and Urban Affairs Committee. We have had a lot of discussion of the President's proposed 15-percent cut in HUD funding. Senator Menendez asked you a moment ago about that.

This proposal goes in the wrong direction. How can you provide more affordable rental and home purchases when you make such savage cuts to affordable housing? So my question to Professor O'Regan, first for you, is, can you discuss additional steps that Congress and HUD should take to address the needs of rent-burdened working families?

And then the question for both you and Mr. Whitaker: pediatrician Megan Sandel likens affordable housing to a vaccine due to its ability to improve or not improve children's health and other outcomes. So, could the two of you talk about what we know about the effect that the lack of safe, healthy, affordable housing has on children's health?

Dr. O'Regan, if you would answer both questions, and, Mr. Whitaker, if you would take the second question.

Thank you.

Dr. O'REGAN. Okay.

So I will start with the need for resources. The need for resources on affordable housing is broad. The hit on the HUD budget is going to be felt severely around the country. So I am not in a position—I am no longer at HUD, and I am not in a position to affect the Federal budget. But it is hard—you want to find ways in which the resources do not get cut for those most at need.

I know there are a number of other proposals being considered, things like renter tax credits, things that can be used that would actually focus on the greatest need at a time when other types of resources are becoming less available. Additional flexibility within the tax credit so resources can be used in more than one way is a way to help fill those gaps as the home funding goes away, which is the gap and fungible funding. You are going to need to look for other places where it can come in.

On the vaccine part, I would like to highlight one piece of work that came out from HUD called the "Family Option Study." I think it is the most rigorous and best evidence to date on the effect of stable, affordable housing on outcomes for children and on non-housing outcomes, radiating benefits that came from homeless families who were provided with long-term housing subsidies.

Within 3 years, a whole collection of additional impacts were seen. Domestic violence went down in these families. Family separations were significantly lower. Kids were less mobile across school and across day-care.

By the third year follow-up, you were seeing prosocial behavior and a collection of all of those outcomes that the longer-term health studies show are directly connected to adult health and mental well-being. And I think that researchers will be following that study for the next 5 years and be using it to show exactly the direct correspondence between stable affordable housing and good outcomes for kids.

The CHAIRMAN. Thank you.

Senator Cassidy?

Senator BROWN. I did not get an answer, but thank you, Mr. Chairman.

The CHAIRMAN. Oh, I am sorry.

Mr. WHITAKER. Well, mine will be short, because I am not much of a health expert, actually. But we do know for a fact that for households that are on the cusp of just being able to afford their daily lives, paying the rent and the necessary food and so forth for their families, anything such as a significant car repair is something that can throw them into homelessness. And a homeless family, those with children—there is nothing more pathetic than to go to the areas of Salt Lake City where we see that on a daily basis.

We see a shopping cart with mom and dad with kids in tow with all of their goods in that shopping basket walking down the street. That is all they have. And we know that is an unhealthy situation for those families.

The CHAIRMAN. Well, thank you.

Senator Cassidy?

Senator CASSIDY. Mr. MacDonald, good to see you.

Mr. MACDONALD. Good to see you, sir.

Senator CASSIDY. I love your industry. Folks start off swinging the hammer, they end up being quite an entrepreneur. It is really tremendous. So just to compliment you, and we have met before, so just to mention that.

Now when I read you all's testimony, it seems as if it is pointing in different directions—nothing against your testimony; very provocative. But let me toss this out.

Dr. McClure, you quote some of Dr. O'Regan's research. So on the one hand, there is data showing that if you "ghettoize" low-income people, that is negative. So, Dr. McClure, you suggest that we should have more policy forcing integration, if you will, of the lower-income into richer neighborhoods. It sounds great, except Mr. MacDonald's testimony points out that wealthier people tend to live near transit centers, probably live near better schools, better restaurants, better et cetera. That increases your development costs.

So we have kind of a push-back there, because it is going to increase your cost to the program. And then, similarly, when you speak about those being underserved—I think you quoted Dr. O'Regan's research—most of these programs are for those who are kind of at $40,000 to $60,000, not less than $20,000.

But when you are down in that level of poverty, there tends to be more economic segregation. Folks do not live near transit centers. They do not live near nice Whole Foods as a rule, although there is a nice place in New Orleans where there is a Whole Foods near such a neighborhood.

So I just toss that out, because it seems like the recommendations and the reality kind of go against each other. Yes, we need more housing for those who have reportable incomes of less than

$20,000. But that is going to increase your housing development costs. Yes, you want to integrate those folks into the broader social fabric, but the social indicators may make it more difficult to do so.

How do we reconcile that?

Dr. McClure. Thank you, Senator. You are correct. It is an enormously tricky process.

What we have now is a one-size-fits-all tax credit program with very few flexibilities built into it. We have built an entire industry of developers, underwriters, nonprofits, that have found ways to layer subsidy on top of subsidy to come up with some very impressive results.

If we could make the Low-Income Housing Tax Credit program more flexible, if we would reward the type of developments that better serve those households truly in need, our outcomes would improve in the program.

Dr. O'Regan. I would like to join in on that. I think that making it work by having the ability within the program to be flexible is quite useful. But you did point out something that is kind of inherent: locational goals may be in conflict.

Senator Cassidy. Totally.

Dr. O'Regan. And so I think this is where the benefit of it being a decentralized program for localities that have the housing market and the needs in front of them getting to be flexible there is important.

But I want to point out one thing on the research that is important for thinking about them potentially not being in such conflict. There is very good work by Rebecca Diamond and Timothy McQuade, who look at the effect of creating low-income housing, LIHTC housing in higher poverty neighborhoods, and find robust findings that those investments, themselves, pay off in the neighborhood.

And if you look at the properties nearby, the housing values go up by more than 6 percent, crime rates go down, and you see larger benefits——

Senator Cassidy. Now, that is just that good money drives out bad people.

Dr. O'Regan. No. You will see composition coming in differently. You will see higher-income households coming in, so the economic and racial composition of the neighborhood changes over time. So it is a community reinvestment strategy.

So, if you think about the place-based side of this, where the LIHTC development goes in now, 5 years in the future looks different. So that is one way to think about some of the benefits you get on that location side.

Senator Cassidy. Okay. I get that.

Now, also it is interesting—I was also just in North Baton Rouge, an area of low socio-economic class in Louisiana. After the flooding, they have lost a lot of their rental stock. So the local pastor was saying, "They are not rebuilding our rental homes, which means that I am losing my congregation. We are losing the fabric of our community."

So your point, sir, that perhaps we need to award rehabilitation a little bit more than new construction would maybe solve some of that. I will concede that.

If you go to New Orleans, sometimes older neighborhoods are closer to transit sites, hubs, if you will—they are just older neighborhoods. It did seem like rehabilitation would be part of the answer. I will just kind of commend your testimony on that.

Mr. MACDONALD. And I also think that the 4-percent side of this bill will aid that rehabilitation. It will heighten it. We have to realize that rehabilitation is really, really a strong position, because we are starting to get older and older units that need the work, and we have to do something to revitalize some of these neighborhoods. The taxpayer program does a wonderful job of that.

I agree that in a perfect world, we would try to build in more affluent areas. But the problem is that the real estate costs in the more affluent areas, everything else, then would reduce the amount of units we are able to get on the ground to assist families.

So, if we are going to get the most bang for our buck, we need to let that stay as a State's issue. When they write their QAPs, those people back home, we need to trust that the people back home know exactly where they need to develop and what is best for their community.

In Texas, we will see the need for revitalization, and you will see an entire set-aside for revitalization. And that is very, very important. We would not want to do anything to swipe that.

They know exactly how to monitor this at home. They know what is good in Baton Rouge for what needs to happen in the rest of North Baton Rouge.

Senator CASSIDY. Thank you all very much.

The CHAIRMAN. Senator Cardin?

Senator CARDIN. Thank you very much, Mr. Chairman. I just really wanted to sort of summarize and thank all of the witnesses for being here.

I particularly thank the chairman and Senator Cantwell for your leadership on this issue. We need your leadership.

Affordable housing is more challenging today than ever before. The statistics that were brought out today indicate that we need to have stronger tools available in order to meet the needs of the people of this country. I think the legislation the two of you have authored gives us a way to move forward in the best traditions of this committee and the Senate. So I first want to thank you all.

I also just want to make an acknowledgment. As I see the work that is done in Maryland, whenever we can get a program started to provide additional affordable housing for people in need, there is not usually one tool available that will make that happen. You sort of have to rely on a lot of different opportunities.

No question, the Low-Income Housing Tax Credit is the major tool that is available, and strengthening that tool will be the most important thing I believe we can do for affordable housing. But the historic tax credits are a major part. We had over 5,000 units, I think, of residential housing that was created under the tax credits.

That is another important tool that is available that has combined many times with Low-Income Housing Tax Credits. We have the New Markets Tax Credits that can be a helpful part of getting this done.

We have incentives for energy efficiency, which can be coupled with these projects, that accomplish additional savings for the people who live there and their energy costs, but also help us in regards to our energy policies in this country. That can also help us deal with those issues.

So, as we look at improving the Low-Income Housing Tax Credit, which I think we definitely strongly support, I think we should be also mindful of the other tools that are available and look at ways that they can be strengthened and in some cases more targeted to the objective of affordable housing.

I am not squeamish about looking at ways we can make these programs more effective. We need to do that, but at the same time, we need to expand them and provide greater resources in order to deal with the tremendous needs that we have in our community.

I should mention also, we could not do this without the private sector. The private sector takes incredible risks at times in order to carry out a public function of affordable housing. They are committed to that.

So it is all of that coming together that has allowed us to move forward in Maryland on the affordable housing issues.

I look forward to working with all of the stakeholders to find ways that we can improve the programs.

Thank you, Mr. Chairman.

The CHAIRMAN. Thanks, Senator.

Senator Thune?

Senator THUNE. Last person here, Mr. Chairman?

The CHAIRMAN. As far as I know. [Laughter.]

Senator THUNE. Okay.

Well, thank you. And thank you to all of you for being with us today. We appreciate you taking time away from your jobs and families to testify this morning.

Affordable housing is an important issue for each of us in our States across the country, and we are fortunate in my State of South Dakota to have one of the lowest unemployment rates in the Nation. But we still have a need for housing that lower-income individuals—especially those just getting started—are able to afford.

Now there are a number of Federal programs and provisions in the tax code that are intended to help provide affordable housing in this country, both in urban areas and rural parts of the Nation as well.

As we turn to tax reform as our top priority, we have an opportunity to look at a lot of these tax provisions to make sure that they are working effectively and efficiently. Your insights this morning are an important contribution to that effort. So, thank you again for being here.

As part of tax reform, many of us on the committee have been looking at the important role that cost recovery can play in helping ensure long-term economic growth. And while much of the testimony this morning has focused on the Low-Income Housing Tax Credit, I understand that depreciation is also a significant component of the financing of affordable housing projects.

However, the current recovery period of 27.5 years can create a significant lock-in effect for residential housing investment. So the question is, if tax reform were to include a shorter recovery period for residential real estate or acceleration of the depreciation deductions, how would you see that affecting affordable housing projects? And I will just throw that open to the panel.

Mr. MacDonald?

Mr. MACDONALD. It would obviously bring down the price. Twenty-six years is better than 27. Twenty-five would be better than 26. So, however you come down the scale, what you will do is help reduce the cost of producing affordable housing. And I do not think there is anyone is this room who will not say that is a great idea.

Senator THUNE. Okay.

Anybody else?

Everybody is for that. All right.

The focus on affordable housing is often centered on our larger cities and the surrounding suburbs, but there is also a need for affordable housing in States like South Dakota, which are largely rural. In these areas we often need housing properties that are smaller, since low-income individuals are more dispersed than in larger cities.

Due to their smaller scale, these housing projects may not be as financially feasible as those being developed in urban communities. Some have suggested enhancing the Low-Income Housing Tax Credit to encourage financing for affordable housing in rural areas.

So the question is, do you agree that the low-income housing in rural areas presents challenges for using the current Low-Income Housing Tax Credit, and what do you think might be the most effective enhancement to the credit that we could come up with that would address this issue?

Yes, sir?

Mr. MACDONALD. Well, Senator Cantwell has got it right here, and that is the ability to adjust DDAs, difficult to develop areas, and give the economic boosts and to allow the States to do that when they write their QAPs on a local area basis, so that in South Dakota or in Texas, they can reach deep and give that boost to the rural areas, which in Texas they do. And that is what allows the development of affordable housing in rural Texas.

Senator THUNE. Okay.

Anybody else?

Dr. O'REGAN. I think this is correct. The bill actually has several things in it that would help with rural communities, including making a change on the income definitions. I think income averaging gives you a broader market so that you would be able to actually support this in rural areas.

I am going to just second the DDA designations so that Indian areas are automatically designated as difficult to develop, which comes with the basis boosts.

Senator THUNE. Okay.

All right. Well, those are my questions, Mr. Chairman. Thank you.

The CHAIRMAN. Well, thank you, Senator.

Senator THUNE. Thank you all for being here.

The CHAIRMAN. Senator Cantwell really deserves the credit for this hearing. And she is a very integral and important member of this committee.

Senator Cantwell?

Senator CANTWELL. Thank you, Mr. Chairman. I would say you are a very integral part of this committee as well. [Laughter.]

The CHAIRMAN. That is good to know.

Senator CANTWELL. And Utah has been a very integral leader in this issue. And so I thank them, again, for pioneering and piloting. I do not know all of the ways in which Utah has been able to muster that, but I admire it. So thank you.

I just want to bring up one last point, and that is, does doing nothing save us any money? Because one of the things that I have heard is that dealing with this population—I know there are some studies, but dealing with this population is costing us $3 billion more because everything is more expensive. If you are dealing with the same population without a roof over their head—or as my colleague, Senator Scott, was talking about, apprenticeship—well I guarantee you, you cannot deliver job training to a tent. It just does not work.

So how do we communicate about the fact that doing nothing is not really saving us any money here?

Dr. O'REGAN. I would say that the language that is used on this frequently is the "wrong pocket" issue. There is an incredibly increasing body of evidence on the role of affordable and stable housing for non-housing outcomes, for improvements in health, mental well-being, for economic mobility for children.

So the lack of affordable housing shows up in the budgets outside of the housing budgets. And so how do you get the attention of those who care about that range of outcomes to realize that investing in housing now decreases all of those other costs over time?

Senator CANTWELL. Do we know of a specific analysis of that now, or could you help us with CBO in scoring that some way, because the——

Dr. O'REGAN. The bane of my existence, when I had my previous job, was trying to get to this, but I think the best evidence is on supportive housing, on all of the immediate cost savings from emergency room visits, and actually from implications in the criminal justice system.

So we have very robust evidence there. And then with more recent evidence with homeless families, what we are seeing is outcomes that—down the pike—would hit the budget.

But certainly, on the ones that are most robust on supportive housing, we could get that to you.

Senator CANTWELL. Well, somebody mentioned to me they thought the number was 25 percent per person. It cost 25 percent more to deal with someone who is in this homeless situation than if they had a roof over their head, because of all those health care costs and expenses.

I do not know, Mr. Whitaker, if you have seen or could comment on that?

Mr. WHITAKER. I cannot comment on statistics, but one of the things that we are beginning to see in our State is the health insurers who are becoming very involved in investing in the tax credit projects.

The supportive housing project that we just funded most recently, with some leftover funding, has major investment by one of the health insurers in Utah, because they understand that, going forward, getting people into a home is going to be cheaper for them than it is to deal with their health issues, particularly related to people who are moving into supportive housing from homelessness.

Senator CANTWELL. So health insurers are investing in affordable housing?

Mr. WHITAKER. Yes.

Senator CANTWELL. Because they think it helps drive down costs of health insurance?

Mr. WHITAKER. Is that not amazing?

Senator CANTWELL. Thank you.

Mr. MacDonald, anything else on that point?

Mr. MACDONALD. I just want to second the comment about the criminal justice system, because there is no way of ascertaining the costs there, but the end result of homelessness and despair puts an impact on criminal justice.

Senator CANTWELL. Thank you.

Again, thank you, Mr. Chairman. And thank you for your leadership on this issue.

And again, I thank all of those in the Utah area who created great models for us to follow.

The CHAIRMAN. Well, thank you. I want to thank you for your leadership on this in this area. This would not have happened without you.

I just want to say this is one of the best panels I have seen in all of my years as a member of this committee. You folks have really been right on. You have made your points very well, and I think you have been very persuasive, and you have been coordinated with each other, which is very, very good as far as I am concerned.

We appreciate your taking the time to help us to understand this better. Hopefully, we can do a better job than we have done in the past.

I want to thank, again, Senator Cantwell and other members of this committee for the work that they are doing on this. And we will just go from there.

With that, any other questions that people have, we will want them to get them in as soon as possible, and we will adjourn this particular meeting at this particular time.

Thank you.

[Whereupon, at 12:05 p.m., the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

Prepared Statement of Daniel Garcia-Diaz, Director, Financial Markets and Community Investment, Government Accountability Office

LOW-INCOME HOUSING TAX CREDIT

Actions Needed to Strengthen Oversight and Accountability

GAO Highlights

Why GAO Did This Study

The LIHTC program, established under the Tax Reform Act of 1986, is the largest source of Federal assistance for developing affordable rental housing and will represent an estimated $8.5 billion in forgone revenue in 2017.

LIHTC encourages private-equity investment in low-income rental housing through tax credits. The program is administered by IRS and allocating agencies, which are typically State or local housing finance agencies established to meet affordable housing needs of their jurisdictions.

Responsibilities of allocating agencies (in section 42 of the Internal Revenue Code and regulations of the Department of the Treasury) encompass awarding credits, assessing the reasonableness of project costs, and monitoring projects.

In this testimony, GAO discusses (1) how allocating agencies implement Federal requirements for awarding LIHTCs, assess reasonableness of property costs, and monitor properties' ongoing compliance; and (2) IRS oversight of the LIHTC program. This statement is based primarily on three reports GAO issued in July 2015 (GAO–15–330), May 2016 (GAO–16–360), and February 2017 (GAO–17–285R). GAO also updated the status of recommendations made in these reports by reviewing new or revised IRS policies, procedures, and reports and interviewing IRS officials.

What GAO Found

In its May 2016 report on the Low-Income Housing Tax Credit (LIHTC) program of the Internal Revenue Service (IRS), GAO found that State and local housing finance agencies (allocating agencies) implemented requirements for allocating credits, reviewing costs, and monitoring projects in varying ways. Moreover, some allocating agencies' day-to-day practices to administer LIHTCs also raised concerns. For example:

- Qualified allocation plans (developed by 58 allocating agencies) that GAO analyzed did not always mention all selection criteria and preferences that section 42 of the Internal Revenue Code requires; and
- Allocating agencies could increase (boost) the eligible basis used to determine allocation amounts for certain buildings if needed for financial feasibility. However, they were not required to document the justification for the increases. The criteria used to award boosts varied, with some allocating agencies allowing boosts for specific types of projects and one allowing boosts for all projects in its State.

In its 2015 and 2016 reports, GAO found IRS oversight of the LIHTC program was minimal. Additionally, IRS collected little data on or performed limited analysis of compliance in the program. Specifically, GAO found that:

- Since 1986, IRS conducted 7 audits of the 58 allocating agencies we reviewed. Reasons for the minimal oversight may include LIHTC being viewed as a peripheral program in IRS in terms of its mission and priorities for resources and staffing.
- IRS had not reviewed the criteria allocating agencies used to award discretionary basis "boosts," which raised concerns about oversubsidizing projects (and reducing the number of projects funded).
- IRS guidance to allocating agencies on reporting noncompliance was conflicting. As a result, allocating agencies' reporting of property noncompliance was inconsistent.
- IRS had not participated in and leveraged the work of the physical inspection initiative of the Rental Policy Working Group—established to better align the operations of Federal rental assistance programs—to augment its databases with physical inspection data on LIHTC properties that the Department of Housing and Urban Development (HUD) maintains.

In its prior reports, GAO made a total of four recommendations to IRS. As of July 2017, IRS had implemented one recommendation to include relevant IRS staff in the working group. IRS has not implemented the remaining three recommendations, including improving the data quality of its LIHTC database, clarifying guidance to agencies on reporting noncompliance, and evaluating how the information HUD collects could be used for identifying noncompliance issues. In addition, because of the limited oversight of LIHTC, in its 2015 report GAO asked that Congress consider designating certain oversight responsibilities to HUD because the agency has experience working with allocating agencies and has processes in place to oversee the agencies. As of July 2017, Congress had not enacted legislation to give HUD an oversight role for LIHTC.

Chairman Hatch, Ranking Member Wyden, and members of the committee:

I am pleased to be here today to discuss our work on the Low-Income Housing Tax Credit (LIHTC) program administered by the Internal Revenue Service (IRS) and allocating agencies, which typically are State or local authorities established to meet the affordable housing needs of the residents of their States. LIHTC, established under the Tax Reform Act of 1986, is the largest source of Federal assistance for developing affordable rental housing. Each State receives an annual allocation of LIHTCs, determined by statutory formula. Allocating agencies then competitively award the tax credits to owners of qualified rental housing projects that reserve all or a portion of their units for low-income tenants. In 2017, LIHTC will represent an estimated $8.5 billion in forgone revenue to the Federal Government.[1]

My statement today will focus on (1) how allocating agencies implement Federal requirements for awarding LIHTCs, assess reasonableness of property costs, and monitor properties' ongoing compliance; and (2) IRS's oversight of the LIHTC program. This statement is based primarily on three reports we issued in July 2015, May 2016, and February 2017.[2] To conduct the work for the three reports, among other methodologies, we reviewed IRS regulations and guidance, including how allocating agencies and taxpayers are selected for review. We also conducted a structured analysis of 58 Qualified Allocation Plans (QAP), which outline processes for awarding LIHTCs and compliance monitoring responsibilities.[3] We selected a nonprobability, nongeneralizable sample of nine allocating agencies for site visits, and during these visits, we reviewed files for randomly selected housing developments to determine how each agency addressed Federal requirements for awarding LIHTCs, assessed the reasonableness of development costs, and monitored properties' compliance with program requirements. We also interviewed officials from IRS, the Department of the Treasury (Treasury), the Department of Housing and Urban Development (HUD), the National Council of State Housing Agencies (NCSHA), and selected allocating agencies. For our 2017 report, we gathered data

[1] Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2016–2020" (Washington, DC: Jan. 30, 2017).

[2] *See* GAO, "Low-Income Housing Tax Credit: The Role of Syndicators," GAO–17–285R (Washington, DC: Feb. 16, 2017); "Low-Income Housing Tax Credit: Some Agency Practices Raise Concerns and IRS Could Improve Noncompliance Reporting and Data Collection," GAO–16–360 (Washington, DC: May 11, 2016); and "Low-Income Housing Tax Credit: Joint IRS–HUD Administration Could Help Address Weaknesses in Oversight," GAO–15–330 (Washington, DC: July 15, 2015).

[3] Our review examined plans from 2013 or the most recent QAP available.

for 32 syndicators in total—31 through a no-cost contract with CohnReznick, a national accounting firm—and one survey response directly from a syndicator.[4] More detailed information on our scope and methodology can be found in each of the reports cited throughout this testimony. To update the status of recommendations from our 2015 and 2016 reports, we reviewed new or revised IRS policies, procedures, and reports and interviewed IRS officials.

We performed the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

BACKGROUND

Overview of IRS Administration of LIHTC Program

IRS administration of the LIHTC program involves overseeing compliance on the part of allocating agencies and taxpayers and developing and publishing regulations and guidance. IRS is responsible for reviewing LIHTC information on three IRS forms that are the basis of LIHTC program reporting and then determining whether program requirements have been met. Taxpayer noncompliance with LIHTC requirements may result in IRS denying claims for the credit in the current year or recapturing—taking back—credits claimed in prior years.

Published guidance may include revenue rulings and procedures, notices, and announcements. Other guidance for the program includes an Audit Technique Guide for Completing Form 8823 that includes specific instructions for allocating agencies, including when site visits and file reviews are to be performed, and guidelines for determining noncompliance in areas such as health and safety standards, rent ceilings, income limits, and tenant qualifications.

Role of Allocating Agencies

State and local allocating agencies are responsible for day-to-day administration of the LIHTC program based on section 42 of the Internal Revenue Code and Treasury regulations. More specifically, allocating agencies are responsible for:

Awarding tax credits. Each State receives an annual allocation of LIHTCs, determined by statutory formula. Allocating agencies then competitively award the tax credits to owners of qualified rental housing projects that reserve all or a portion of their units for low-income tenants, consistent with the agencies' QAPs.[5] Developers typically attempt to obtain funding for their projects by attracting third-party investors willing to contribute equity to the projects; the project investors then can claim the tax credits.

Monitoring costs. Section 42 states that allocating agencies must consider the reasonableness of costs and their uses for proposed LIHTC projects, allows for agency discretion in making this determination, and also states that credits allocated to a project may not exceed the amount necessary to assure its feasibility and its viability as a low-income housing project. However, section 42 does not provide a definition or offer guidance on determining how to calculate these amounts.

Monitoring compliance. After credits are awarded, Treasury regulations state that allocating agencies must conduct regular site visits to physically inspect units and review tenant files for eligibility information. The agencies also have reporting and notification requirements. For example, allocating agencies must notify IRS of any noncompliance found during inspections and ensure that owners of LIHTC properties annually certify they met certain requirements for the preceding 12-month period.

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[4] CohnReznick completed a survey to capture requested data on behalf of the 31 syndicators for which it had information. It then sent the completed surveys to the syndicators to review and, if necessary, correct before transmitting the data to us.

[5] An allocating agency develops the QAP and receives approval of the plan by the governmental unit of which the allocating agency is a part. The agency then evaluates the proposed projects against the approved QAP. The QAP also must be developed in accordance with section 42 requirements for such plans. Section 42 requires that QAPs give preference to certain projects, specifically, those that: (1) serve the lowest-income tenants; (2) are obligated to serve qualified tenants for the longest periods; and (3) are located in qualified census tracts and the development of which contributes to a concerted community revitalization plan.

Role of Investors and Syndicators

Developers of awarded projects typically attempt to obtain funding for their projects by attracting third-parties willing to invest in the project in exchange for the ability to claim tax credits. The developer sells an ownership interest in the project to one or more investors, or in many instances, to a fund managed by a syndicator who acts as an intermediary between the developer and investors.

Investors and syndicators play several roles in the LIHTC market. For example, syndicators help initially connect investors and developers and oversee acquisition of projects. Once a project is acquired, syndicators perform ongoing monitoring and asset management to help ensure the project complies with LIHTC requirements and is financially sound. Syndicators attempt to identify potential problems and intercede if necessary, such as replacing under- or nonperforming general partners, and may use their own reserves to help resolve problems. In exchange for these services, syndicators typically are compensated through an initial acquisition fee—usually a percentage of the gross equity raised—and an annual asset management fee.

Syndicators that we surveyed for our 2017 report were nonprofit or for-profit entities, generally had multistate operations, and averaged more than 20 years of experience with the LIHTC program.[6] Of the 32 syndicators we surveyed, the syndicators collectively had raised more than $100 billion in LIHTC equity since 1986, helping to fund more than 20,000 properties and about 1.4 million units placed-in-service through 2014. Projects for which these syndicators raised equity in 2005–2014 represented an estimated 75 percent of all LIHTC properties placed-in-service in that period.[7]

SELECTED ALLOCATING AGENCIES IMPLEMENTED DIFFERING PRACTICES FOR KEY LIHTC REQUIREMENTS

As we reported in 2016, allocating agencies implemented requirements for QAPs in varying ways and had processes in place to meet requirements for credit awards. Allocating agencies also had procedures to assess costs, but determined award amounts for projects differently, used various cost limits and benchmarks to determine reasonableness of costs, and used widely varying criteria for basis boosts. Agencies also had processes in place to monitor compliance. However, some of these practices raised concerns.

Agencies Implemented Requirements for Allocation Plans and Award Credits in Varying Ways

In our 2016 report, we generally found that allocating agencies implemented requirements for QAPs in varying ways and had processes in place to meet requirements for awarding the tax credit.

- Based on our 2016 review of 58 QAPs and our 9 site visits, we found the QAPs did not always contain, address, or mention preferences and selection criteria required in section 42. Rather, some allocating agencies incorporated the information into other LIHTC program documents, or implemented the requirements in practice.
- While section 42 specifies some selection criteria (such as project location or tenant populations with special housing needs), it also more broadly states that a QAP set forth selection criteria "appropriate to local conditions." As a result, allocating agencies have the flexibility to create their own methods and rating systems for evaluating applicants. We found that nearly all the allocating agencies that we reviewed used points or a threshold system for evaluating applicants. They used criteria such as qualifications of the development team, cost effectiveness, or leveraging of funds from other Federal or State programs.
- According to section 42, allocating agencies must notify the chief executive officer (or the equivalent) of the local jurisdiction in which the project is to be located. However, some agencies imposed an additional requirement of letters of support from local officials. Specifically, as of 2013, we found that of the 58 agencies in our review, 12 agencies noted that their review or approval of applications was contingent on letters of support, and another 10 agencies awarded points for letters of local support. HUD officials have cited fair housing concerns in relation to any preferences or requirements for local approval or support be-

[6] For more information on the role of syndicators and their characteristics, *see* GAO–17–285R.

[7] We collected data through calendar year 2014 because that was the most current available at the time of our 2017 report.

cause of the discriminatory influence these factors could have on where affordable housing is built. In December 2016, IRS issued a revenue ruling that clarified that section 42 neither requires nor encourages allocating agencies to reject all proposals that do not obtain the approval of the locality where the project developer proposes to place the project.[8]

Allocating agencies we visited for our 2016 report had processes in place to meet other section 42 requirements, including awarding credit to nonprofits and long-term affordability of projects. Allocating agencies must allocate at least 10 percent of the State housing credit ceiling to projects involving qualified nonprofit organizations. All nine allocating agencies we visited had a set-aside of at least 10 percent of credits to be awarded to projects involving nonprofits. Section 42 also requires allocating agencies to execute an extended low-income housing commitment of at least 30 years before a building can receive credits. For example, one allocating agency we visited required developers to sign agreements for longer extended-use periods, while some agencies awarded points to applications whose developers elect longer periods.

Agencies We Reviewed Had Procedures to Assess Costs and Used Widely Varying Criteria for Basis Boosts

Allocating agencies we reviewed for our 2016 report had procedures to assess costs, but determined award amounts for projects differently and used various cost limits and benchmarks to determine reasonableness of costs. All nine allocating agencies we visited required applicants to submit detailed cost and funding estimates, an explanation of sources and uses, and expected revenues as part of their applications. These costs were then evaluated to determine a project's eligible basis (total allowable costs associated with depreciable costs in the project), which in turn determined the qualified basis and ultimately the amount of tax credits to be awarded.[9]

Reasonableness of costs. We found that allocating agencies had different ways for determining the reasonableness of project costs. Based on our analysis of 58 QAPs and our 9 site visits, agencies had established various limits against which to evaluate the reasonableness of submitted costs, such as applying limits on development costs, total credit awards, developer fees, and builder's fees.[10] Section 42 does not provide a definition of reasonableness of costs, giving allocating agencies discretion on how best to determine what costs are appropriate for their respective localities.

Discretionary basis boosts. Allocating agencies commonly "boosted" the basis for projects, but used widely varying criteria for doing so. Section 42 notes that an increase or "boost" of up to 130 percent in the eligible basis can be awarded by an allocating agency to a housing development in a qualified census tract or difficult development area.[11]

[8] IRS, Rev. Rul. 2016–29.

[9] The credit the taxpayer can claim each year is determined by the following calculations: (1) eligible basis × applicable fraction = qualified basis; and (2) qualified basis × applicable percentage = annual credit amount. Qualified basis is the portion of a project's total costs—excluding the costs of land, obtaining permanent financing, rent reserves, syndication, and marketing—allocable to units that meet section 42 requirements for rent, tenant income, and habitability. The applicable fraction is the lesser of the portion of qualified low-income units in relation to total rental units or the portion of total floor space dedicated to low-income units in relation to the total floor space of residential rental units. The applicable percentage is the discount factor needed to limit the present value of the credit available over a 10-year period to either 70 percent or 30 percent of the qualified basis, depending on the characteristics of the housing. The credit percentages are adjusted monthly by IRS based on current interest rates. Under a special rule first enacted in 2008 and made permanent in 2015, the minimum percentage is 9 percent for the buildings eligible for the 70 percent credit.

[10] Our review examined plans from 2013 or the most recent QAP available. Allocating agencies we observed that did not describe cost limits in their QAPs still may have used cost limits or other factors as a measure of reasonableness in their actual application reviews and these may have been documented elsewhere.

[11] A difficult development area is "any area designated by the Secretary of Housing and Urban Development as an area which has high construction, land, and utility costs relative to area median gross income." 26 U.S.C. § 42(d)(5)(B)(iii)(I). The Housing and Economic Recovery Act of 2008 amended section 42 and gave allocating agencies the discretion to designate any building, regardless of location, as eligible for a boost of up to 130 percent of the eligible basis. Although the boost is applied to the total eligible basis (as opposed to the total credit amount), the credit amount awarded increases (the actual increase to the credit award is less than 30 percent be-

Continued

According to our QAP analysis, 44 of 58 plans we reviewed included criteria for awarding discretionary basis boosts, with 16 plans explicitly specifying the use of basis boosts for projects as needed for financial or economic feasibility. The discretionary boosts were applied to different types of projects and on different scales (for example, statewide or citywide).

- For example, we found one development that received a boost to the eligible basis for having received certain green building certifications, although the applicant did not demonstrate financial need or request the boost. The allocating agency told us that all projects with specified green building certifications received the boost automatically, as laid out in its QAP. At the time of our review, agency officials said that the agency had changed its practices to prevent automatic basis boosts from being applied and required additional checks for financial need.
- In another QAP we reviewed, one agency described an automatic 130 percent statewide boost for all LIHTC developments. According to the officials, the automatic statewide boost remained in effect because officials made the determination that nearly all projects would need it for financial feasibility.

Section 42 requires that allocating agencies determine that "discretionary basis boosts" were necessary for buildings to be financially feasible before granting them to developers.[12] Section 42 does not require allocating agencies to document their analysis for financial feasibility (with or without the basis boost). However, legislative history for the Housing and Economic Recovery Act of 2008 included expectations that allocating agencies would set standards in their QAPs for which projects would be allocated additional credits, communicate the reasons for designating such criteria, and publicly express the basis for allocating additional credits to a project.[13] In addition, NCSHA (a nonprofit advocating for State allocating agencies) recommends that allocating agencies set standards in their QAPs to determine eligibility for discretionary basis boosts and make the determinations publicly available.[14]

Agencies We Visited Had Processes for Monitoring Compliance

In our 2016 report we found that the allocating agencies we visited had processes for and conducted compliance monitoring of projects consistent with section 42 and Treasury regulations. Treasury regulations require allocating agencies to conduct on-site physical inspections for at least 20 percent of the project's low-income units and file reviews for the tenants in these units at least once every 3 years. In addition, allocating agencies must annually review owner certifications that affirm that properties continue to meet LIHTC program requirements.

- Allocating agencies we visited followed regulatory requirements on when to conduct physical inspections and tenant file reviews.
- Allocating agencies we visited generally used electronic databases to track the frequency of inspections, file reviews, and certifications, although most of these agencies documented these reviews on paper.
- All the allocating agencies we visited had inspection and review processes in place to monitor projects following the 15-year compliance period, as required under section 42. Allocating agencies must execute an extended low-income housing commitment to remain affordable for a minimum of 30 years before a tax credit project can receive credits. After the compliance period is over, the obligation for allocating agencies to report to IRS on compliance issues ends and investors are no longer at risk for tax credit recapture.

IRS OVERSIGHT OF LIHTC HAS BEEN MINIMAL

Our prior reports found IRS conducted few reviews of allocating agencies and had not reviewed how agencies determined basis boosts. Data on noncompliance were not reliable and IRS used little of the reported program information. IRS had not directly participated in an interagency initiative to augment HUD's databases with

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cause the award is determined by multiplying the applicable fraction by the total eligible basis, which is increased by the boost).

[12] We use "discretionary basis boosts" to describe boosts awarded to developments outside of qualified census tracts or difficult development areas.

[13] H. Rept. No. 110–606, at 25 (2008).

[14] National Council of State Housing Agencies, *Report of the National Council of State Housing Agencies' Housing Credit Task Force on Recommended Practices in Housing Credit Allocation and Underwriting* (December 2011).

LIHTC property inspection data. Both our 2015 and 2016 reports concluded that opportunities existed to enhance oversight of the LIHTC program, specifically by leveraging the knowledge and experience of HUD.

IRS Conducted Few Reviews of Allocating Agencies and Had Not Reviewed How Agencies Determined Basis Boosts

Few reviews of allocating agencies. In our 2015 report, we found that IRS had conducted seven audits (reviews) of allocating agencies from 1986 (inception of the program) through May 2015. In the audits, IRS found issues related to QAPs, including missing preferences and selection criteria.

But in both our 2015 and 2016 reports, IRS officials stated that they did not regard a regular review of QAPs as part of their responsibilities as outlined in section 42 and therefore did not regularly review the plans.[15] IRS officials said that allocating agencies have primary responsibility to ensure that the plans meet section 42 preferences and selection criteria. IRS officials noted that review of a QAP to determine if the plan incorporated the elements specified in section 42 could occur if IRS were to audit an allocating agency.

No review of agencies' discretionary basis boosts. In our 2016 report, we found IRS had not reviewed the criteria allocating agencies used to award discretionary basis boosts. The use of basis boosts has implications for LIHTC housing production because of the risk of oversubsidizing projects, which would reduce the amount of the remaining allocable subsidies and yield fewer LIHTC projects overall within a State.

IRS also had not provided guidance to agencies on how to determine the need for the additional basis to make projects financially feasible. IRS officials told us that section 42 gives allocating agencies the discretion to determine if projects receive a basis boost and does not require documentation of financial feasibility. Additionally, IRS officials explained that because the overall amount of subsidies allocated to a State is limited, the inherent structure of the program discourages States from oversubsidizing projects. However, during our 2016 review, we observed a range of practices for awarding discretionary basis boosts, including a blanket basis boost that could result in fewer projects being subsidized and provide more credits than necessary for financial feasibility. We concluded that because IRS did not regularly review QAPs, many of which list criteria for discretionary basis boosts, IRS was unable to determine the extent to which agency policies could result in oversubsidizing of projects.

Some Program Data Were Not Reliable and IRS Used Little of Reported Program Information

Unreliable data. We reported in 2015 that IRS had not comprehensively captured information reported for the program in its Low-Income Housing Credit database and the existing data were not complete and reliable. IRS guidance requires the collection of data on the LIHTC program in an IRS database, which records information submitted by allocating agencies and taxpayers on three forms. The forms include:

- **Credit allocation and certification (Form 8609).** The two-part form is completed by the allocating agency and the taxpayer. Agencies report the allocated amount of tax credits available over a 10-year period for each building in a project. The taxpayer reports the date on which the building was placed in service (suitable for occupancy).
- **Noncompliance or building disposition (Form 8823).** Allocating agencies must complete and submit this form to IRS if an on-site physical inspection of a LIHTC project finds any noncompliance. The form records any findings (and corrections of previous findings) based on the inspection of units and review of the low-income tenant certifications.
- **Annual report (Form 8610).** IRS staff review the reports to ensure allocations do not exceed a statutorily prescribed ceiling for that year.

Based on our analysis of the information in the database, we found in 2015 that the data on credit allocation and certification information were not sufficiently reliable to determine if basic requirements for the LIHTC program were being achieved. For example, we could not determine how often LIHTC projects were placed-in-service within required time frames. We concluded that without improve-

[15] In GAO–15–330, we reported that IRS did not regularly review QAPs as it was the agency's view that regular reviews of QAPs were outside the scope of its compliance responsibilities.

ments to the data quality of credit allocation and certification information, it was difficult to determine if credit allocation and placed-in-service requirements had been met by allocating agencies and taxpayers, respectively. Thus, we recommended that IRS should address weaknesses identified in data entry and programming controls to ensure reliable data are collected on credit allocations.

At the time of our 2015 report, IRS acknowledged the need for improvements in its controls and procedures (including data entry and quality reviews). IRS officials agreed that these problems should be corrected and data quality reviews should be conducted on an ongoing basis. As of March 2017, in response to our recommendation, IRS officials said that they had explored possibilities to improve the database, which not only houses credit allocation information, but also data from noncompliance and building disposition forms. Specifically, IRS is working to move the database to a new and updated server, which will address weaknesses identified in data entry and programming controls. IRS expects to complete the data migration step by early fall of 2017. Until IRS implements its plan to improve the data, this recommendation will remain open.

Limited noncompliance data, analysis, and guidance on reporting. We found in our 2015 and 2016 reports that IRS had done little with the information it collects on noncompliance. IRS had captured little information from the Form 8823 submissions in its database and had not tracked the resolution of noncompliance issues or analyzed trends in noncompliance. As of April 2016, the database included information from about 4,200 of the nearly 214,000 Form 8823s IRS received since 2009 (less than 2 percent of forms received).

For our 2015 report, officials told us the decision was made during the 2008–2009 time frame to input information only from forms that indicated a change in building disposition, such as a foreclosure. IRS focused on forms indicating this change for reasons including the serious nature of the occurrence for the program and impacts on taxpayers' ability to receive credit. Officials also stated it was not cost effective to input all the form information and trend analysis on all types of noncompliance was not useful for purposes of ensuring compliance with the tax code.

In addition, as we reported in both 2015 and 2016, IRS had assessed little of the noncompliance information collected on the Form 8823 or routinely used it to determine trends in noncompliance. Because little information was captured in the Low-Income Housing Credit database, IRS was unable to provide us with program-wide information on the most common types of noncompliance. Furthermore, IRS had no method to determine if issues reported as uncorrected had been resolved or if properties had recurring noncompliance issues.

In our 2016 report, we also found inconsistent reporting on the noncompliance forms, the reasons for which included conflicting IRS guidance, different interpretations of the guidance by allocating agencies, and lack of IRS feedback about agency submissions.

- IRS developed guidelines for allocating agencies to use when completing the Form 8823, the "fundamental purpose" of which was identified as providing standardized operational definitions for the noncompliance categories listed on the form. The IRS guide adds that it is important that noncompliance be consistently identified, categorized, and reported and notes that the benefits of consistency included enhanced program administration by IRS.
- Allocating agencies we visited had various practices for submitting Form 8823 to IRS, including different timing of submissions, reporting on all violations (whether minor or corrected during inspections) or not, and amounts of additional detail provided. Partly because of these different practices, the number of forms each of the nine agencies told us they sent to IRS in 2013 varied from 1 to more than 1,700.

We concluded that without IRS clarification of when to send in the Form 8823, allocating agencies will continue to submit inconsistent noncompliance data to IRS, which will make it difficult for IRS to efficiently distinguish between minor violations and severe noncompliance, such as properties with health and safety issues. We recommended that IRS should clarify what to submit and when—in collaboration with the allocating agencies and Treasury—to help IRS improve the quality of the noncompliance information it receives and help ensure that any new guidance is consistent with Treasury regulations.

In August 2016, IRS stated it would review the Form 8823 Audit Technique Guide to determine whether additional guidance and clarification were needed for allocating agencies to report noncompliance information on the form. If published legal guidance is required, IRS stated that it will submit a proposal for such guidance for prioritization. IRS indicated an expected implementation date by November 2017. In addition, in March 2017, officials stated that IRS Counsel attended an industry conference with allocating agencies at which issues related to the Form 8823 were discussed.

Lack of participation in data initiative. Moreover, in our 2016 report we found IRS had not taken advantage of the important progress HUD made through the Rental Policy Working Group (working group)—which was established to better align the operation of Federal rental policies across the administration—to augment its databases with LIHTC property inspection data.[16] This data collection effort created opportunities for HUD to share inspection data with IRS that could improve the effectiveness of reviews for LIHTC noncompliance. However, the IRS Small Business/Self-Employed Division managing the LIHTC program had not been involved in the working group. We concluded that such involvement would allow IRS to leverage existing resources, augment its information on noncompliance, and better understand the prevalence of noncompliance.

We recommended that staff from the division participate in the physical inspection initiative of the working group and also recommended that the IRS Commissioner evaluate how IRS could use HUD's real estate database, including how the information might be used to reassess reporting categories on Form 8823 and reassess which categories of noncompliance information to review for audit potential. As of March 2017, IRS had implemented our recommendation to include the appropriate staff at the working group meetings. However, IRS officials stated that since HUD's database with property inspection data was not complete as of March 2017 and contained data from 30 States, it was unclear how the database could be used. IRS officials said they would continue exploring the HUD database if the data for all LIHTC properties were included and it was possible to isolate the LIHTC property data from other rental properties in the HUD database.

Leveraging Experience of HUD May Augment IRS's Capacity to Oversee Program

Both our 2015 and 2016 reports found that opportunities existed to enhance oversight of the LIHTC program, specifically by leveraging the knowledge and experience of HUD. We found in 2015 that while LIHTC is the largest Federal program for increasing the supply of affordable rental housing, LIHTC is a peripheral program in IRS in terms of resources and mission. Oversight responsibilities for the program include monitoring allocating agencies and taxpayer compliance. However, as we have discussed previously, IRS oversight has been minimal and IRS has captured and used little program information. As we previously stated, such information could help program managers and congressional decision makers assess the program's effectiveness.

HUD—which has a housing mission—collects and analyzes information on low-income rental housing, including LIHTC-funded projects. As we reported in 2015, HUD's role in the LIHTC program is generally limited to the collection of information on tenant characteristics (mandated by the Housing and Economic Recovery Act of 2008). However, it has voluntarily collected project-level information on the program since 1996 because of the importance of LIHTC as a source of funding for affordable housing. HUD also has sponsored studies of the LIHTC program that use these data. HUD's LIHTC databases, the largest Federal source of information on the LIHTC program, aggregates project-level data that allocating agencies voluntarily submit and information on tenant characteristics that HUD must collect. Since 2014, HUD also has published annual reports analyzing data it must collect on tenants residing in LIHTC properties. As part of this report, HUD compares property information in its tenant database to the information in its property database to help assess the completeness of both databases.

In our 2015 report, we also discussed HUD's experience in working with allocating agencies. While multiple Federal agencies administer housing-related programs, HUD is the lead Federal agency for providing affordable rental housing. Much like LIHTC, HUD's rental housing programs rely on State and local agencies to implement programs. HUD is responsible for overseeing these agencies, including reviewing State and local consolidated plans for the HOME Investment Partnership and Community Development Block Grant programs—large grant programs that also

[16] The Rental Policy Working Group comprises representatives from the White House Domestic Policy Council, National Economic Council, Office of Management and Budget, HUD, Treasury, the Department of Agriculture, and the Department of Justice.

are used to fund LIHTC projects. HUD also has experience in directly overseeing allocating agencies in their roles as contract administrators for project-based section 8 rental assistance. HUD has processes, procedures, and staff in place for program evaluation and oversight of State and local agencies that could be built upon and strengthened.

In our 2015 report, we concluded that significant resource constraints affected IRS's ability to oversee taxpayer compliance and precluded wide-ranging improvement to such functions, but that IRS still had an opportunity to enhance oversight of LIHTC. We also concluded that leveraging the experience and expertise of another agency with a housing mission, such as HUD, might help offset some of IRS's limitations in relation to program oversight. HUD's existing processes and procedures for overseeing allocating agencies could constitute a framework on which further changes and improvements in LIHTC could be effected. However, enhancing HUD's role could involve additional staff and other resources. An estimate of potential costs and funding options for financing enhanced Federal oversight of the LIHTC program would be integral to determining an appropriate funding mechanism.

We asked that Congress consider designating HUD as a joint administrator of the program responsible for oversight. As part of the deliberation, we suggested that Congress direct HUD to estimate the costs to monitor and perform the additional oversight responsibilities, including a discussion of funding options. Treasury agreed that it would be useful for HUD to receive ongoing responsibility for, and resources to perform, research and analysis on the effectiveness of LIHTCs in increasing the availability of affordable rental housing. Treasury noted that such research and analysis are not part of IRS's responsibilities or consistent with its expertise in interpreting and enforcing tax laws. However, Treasury stated that responsibility for interpreting and enforcing the code should remain entirely with IRS. Our report noted that if program administration were changed, IRS could retain certain key responsibilities consistent with its tax administration mission.

In our 2016 report, we concluded that IRS oversight of allocating agencies continued to be minimal, particularly in reviewing QAPs and allocating agencies' practices for awarding discretionary basis boosts. As a result, we reiterated the recommendation from our 2015 report that Congress should consider designating HUD as a joint administrator of the program responsible for oversight due to its experience and expertise as an agency with a housing mission.

In response to our 2016 report, HUD stated it remains supportive of mechanisms to use its significant expertise and experience administering housing programs for enhanced effectiveness of LIHTC. HUD also stated that enhanced interagency coordination could better ensure compliance with fair housing requirements and improve alignment of LIHTC with national housing priorities. As of July 2017, Congress had not enacted legislation to give HUD an oversight role for LIHTC.

Chairman Hatch, Ranking Member Wyden, and members of the committee, this concludes my prepared statement. I would be happy to respond to any questions that you may have at this time.

QUESTIONS SUBMITTED FOR THE RECORD TO DANIEL GARCIA-DIAZ

QUESTION SUBMITTED BY HON. ORRIN G. HATCH

Question. Are there any best practices or other recommendations you have for requirements based on oversight done at the State housing agency level we could put in legislation for State housing agencies to follow?

Would you recommend any requirements be put in legislation or are there other ways to address the oversight question?

Answer. In our 2015 and 2016 reports, we reviewed oversight done by the Internal Revenue Service (IRS) and State and local housing finance agencies (allocating agencies) on the Low-Income Housing Tax Credit (LIHTC) program. We made multiple recommendations to IRS for improving oversight as well as asked Congress to consider designating the Department of Housing and Urban Development (HUD) as a joint administrator of the program responsible for oversight.[1] We discuss these in

[1] *See* GAO, "Low-Income Housing Tax Credit: Some Agency Practices Raise Concerns and IRS Could Improve Noncompliance Reporting and Data Collection," GAO–16–360 (Washington, DC:

more detail below, along with other GAO work underway on development costs under the LIHTC program.

Leveraging HUD to Improve Oversight. In 2016, we reported that selected allocating agencies implemented requirements for Qualified Allocation Plans (QAPs) in varying ways and had processes in place to meet requirements for awarding credits. Allocating agencies also had procedures to assess costs, but determined award amounts for projects differently, used various cost limits and benchmarks to determine reasonableness of costs, and used varying criteria for basis boosts. Agencies also had processes in place to monitor compliance. My testimony on August 1, 2017, and our 2015 and 2016 reports stated these variations and some of the concerns raised.[2] For example, all the required selection criteria and preferences in the Internal Revenue Code were not always listed in the QAP documents we reviewed (we noted that they could be documented in other publicly available sources) and some allocating agencies required local letters of support, which can lead to fair housing concerns.

In our 2015 and 2016 reports, we stated that oversight of the program was minimal with IRS performing seven audits of all 58 allocating agencies since 1986. Examples of the IRS audit findings included allocating agencies' policies that conflicted with the Internal Revenue Code; QAP did not address all compliance requirements or was outdated; annual report to IRS had incorrect credit allocations; failure to report noncompliance to IRS; and physical inspections and tenant file reviews were not completed as required. IRS cited multiple reasons for not conducting regular reviews of QAPs and audits of allocating agencies, including not regarding regular review of QAPs as a part of its compliance responsibilities and competing priorities for resources and staffing. We found that without regular monitoring of allocating agencies, IRS could not determine the extent to which agencies comply with program requirements.

In our comparison of tax credit programs (similar in purpose and structure of LIHTC) in our 2015 report, we found that these programs were jointly administered by IRS and a Federal agency to conduct monitoring, report on performance, and collect data. These other Federal agencies had missions consistent with the purposes of the tax credit programs. For example, the National Park Service's Technical Preservation Services (TPS) administers the Historic Rehabilitation Tax Credit program and the Department of the Treasury's (Treasury) Community Development Financial Institutions (CDFI) Fund administers the New Markets Tax Credit program. As part of its oversight, TPS directly oversaw State entities through on-site inspections of projects, and the CDFI Fund performed programmatic- and risk-based compliance site visits of the private-sector partner entities that monitor investments. Further, TPS and the CDFI Fund published annual reports and worked with research institutions to conduct additional evaluation of the programs. The LIHTC program does not have a Federal agency that jointly administers the program.

We stated that Congress should consider designating HUD as a joint administrator of the program responsible for oversight given its experience and expertise as the Nation's lead housing agency. Specifically, applying HUD's experience in administering affordable housing programs to address areas such as QAP review, Federal fair housing goals, and tenant income and rent issues would provide information, analysis, and potentially guidance on issues that apply across all allocating agencies. We also stated that HUD has processes, procedures, and staff in place for program evaluation and oversight of State and local agencies that could be built upon and strengthened. IRS would retain certain key responsibilities consistent with its tax administration mission.

Strengthening Data Collection and Noncompliance Reporting. We found in 2015 that the data on credit allocation and certification information were not sufficiently reliable to determine if basic requirements for the LIHTC program were being achieved. For example, we could not determine how often LIHTC projects were placed in service within required time frames. We concluded that without improvements to the data quality of credit allocation and certification information, it was difficult to determine if credit allocation and placed-in-service requirements had been met by allocating agencies and taxpayers, respectively. Thus, we recommended that IRS should address weaknesses identified in data entry and programming con-

May 11, 2016); and "Low-Income Housing Tax Credit: Joint IRS–HUD Administration Could Help Address Weaknesses in Oversight," GAO–15–330 (Washington, DC: July 15, 2015).

[2] GAO, "Low-Income Housing Tax Credit: Actions Needed to Strengthen Oversight and Accountability," GAO–17–784T (Washington, DC: Aug. 1, 2017).

trols to ensure reliable data are collected on credit allocations. As we stated in the testimony, this recommendation remains open.

We found that select allocating agencies we visited for our 2016 report had varying practices for monitoring and submitting noncompliance information to IRS using the Form 8823 (report of noncompliance or building disposition). For example, the Illinois and Massachusetts allocating agencies had both inspected about 200 properties in 2013, but Illinois filed only one Form 8823 with IRS in that year, while Massachusetts had filed almost 100 forms in the same year. As a result, in order to receive more consistent information on LIHTC noncompliance, we recommended the IRS Commissioner should collaborate with the allocating agencies to clarify when allocating agencies should report such information on the Form 8823. Additionally, IRS should collaborate with Treasury in drafting such clarifications to help ensure that any new guidance is consistent with Treasury regulations. As we stated in the testimony, this recommendation remains open.

Tracking and Analyzing Development Cost Information. We are conducting a review of development costs under the LIHTC program, including reviewing development cost data and allocating agencies' approaches to managing these costs. Because there is no national database of project costs, we are currently building a database of nearly 2,000 projects (from 12 different allocating agencies) that were completed from 2011 through 2015. This effort has required discussions with allocating agencies to determine standard definitions of variables, consolidation of data across allocating agencies, and manual entry of data into the database. While our work on development costs is ongoing, we have observed variation in how allocating agencies manage development costs. For example, some of the allocating agencies we spoke to incorporate several types of cost management measures into their project selection criteria, while others incorporate fewer. These cost management measures include cost or credit limits by region or development type, competitive points for lower-cost or more cost-efficient projects, and cost-based tie breaker criteria. As we mentioned earlier, our 2016 report found that allocating agencies had procedures to assess costs, but determined award amounts for projects differently and used various cost limits and benchmarks to determine reasonableness of costs. The demand for affordable housing among low-income renters far exceeds the amount of assistance available. Thus, understanding and managing costs are important in ensuring that scarce Federal resources are used as efficiently and effectively as possible.

QUESTION SUBMITTED BY HON. TIM SCOTT

Question. Manufactured housing is a topic that often goes unmentioned in the affordable housing discussion. One in five homes in South Carolina are prefabricated. That's the highest percentage of any State. At the same time, the average household income for a manufactured home owner is $30,000 versus the $52,000 national average. The folks that buy manufactured housing are the least equipped to deal with rising costs. A 2014 GAO study found that "high financing costs often keep these homes from being even more affordable."

What conclusions did the GAO reach on improving manufactured housing affordability?

Answer. GAO has published three reports on manufactured housing in the last several years.[3] As you note, in our 2014 report, we found that owners of manufactured homes tended to have both lower incomes than other homeowners and lower monthly housing costs than site-built owners and apartment renters. However, high financing costs often keep these homes from being even more affordable. Our report stated that owners of manufactured homes are more likely to have higher-priced financing than owners of site-built homes. Unlike site-built homes, which are titled as real property and usually financed through a mortgage, a manufactured home may be financed as either personal or real property. When a home buyer purchases a manufactured home without tying the purchase to land, the home is generally con-

[3] GAO, "Federal Housing Administration: Agency Should Assess the Effects of Proposed Changes to the Manufactured Home Loan Program," GAO–07–879 (Washington, DC: Aug. 24, 2007); "Manufactured Housing Standards: Testing and Performance Evaluation Could Better Ensure Safe Indoor Air Quality," GAO–13–52 (Washington, DC: Oct. 24, 2012); and "Manufactured Housing: Efforts Needed to Enhance Program Effectiveness and Ensure Funding Stability," GAO–14–410 (Washington, DC: July 2, 2014).

sidered personal property, or chattel—that is, it is a movable, "personal" possession, much like an automobile.

We found there are several reasons for the high cost of financing for manufactured homes. Manufactured homes are sometimes grouped together in communities where residents may either own or lease the home, but lease the land. When a manufactured home is attached to the underlying land by a permanent foundation and the home and the land are treated as a single real estate title under State law, the home is considered real property. In such instances, the borrowers can obtain a conventional real estate loan or a government-guaranteed mortgage through traditional mortgage lenders. HUD's Federal Housing Administration (FHA) has two insurance programs for manufactured home loans. Although most manufactured homes are titled or owned as personal property, HUD's programs primarily insure loans on manufactured homes financed as real estate.

We found that another reason for high financing cost of manufactured homes was related to the securitization of manufactured housing on the secondary market. In our 2014 report, we discussed limited liquidity options for lenders through the secondary market. Ginnie Mae offers a mechanism to securitize manufactured home loans. Although the agency had experienced losses in the past, a Ginnie Mae official explained that the agency had conducted outreach to lenders to increase participation in the program. Further, we noted that Fannie Mae and Freddie Mac (the enterprises), which guarantee and purchase loans from mortgage lenders, play less of a role in providing liquidity to lenders of manufactured home loans than they do in providing liquidity to lenders of loans on other single-family properties. One lender of manufactured home loans cited certain underwriting constraints that limited their participation in Fannie Mae and Freddie Mac programs. For example, Fannie Mae requires an appraisal of the manufactured home with comparable local manufactured homes titled as real estate, a requirement that can be challenging, particularly in rural areas with relatively few homes and where many manufactured homes are titled as personal property. Fannie Mae and Freddie Mac do not purchase loans for manufactured homes titled as personal property. Because of these constraints, most financing for manufactured homes, whether chattel or real property, is provided through private lenders.

Finally, we found that HUD had not developed a plan to review the effectiveness of the FHA programs for manufactured homes. Noting that the higher cost of financing manufactured homes can limit their potential affordability, we concluded that such reviews would allow HUD to identify (1) potential changes to its mortgage insurance programs that would further promote the affordability of manufactured homes or (2) efforts to determine the potential for the enterprises and Ginnie Mae to actively develop and implement better secondary market securitization programs for manufactured home loans. We concluded that without analysis and research into the financing mechanism as it relates to the affordability of manufactured housing, HUD had little assurance that its loan programs and the securitization programs of Ginnie Mae and the enterprises were appropriately promoting the availability of affordable manufactured homes. As a result, GAO recommended that HUD develop a plan to assess how FHA financing might further promote the affordability of manufactured homes and identify the potential for better securitization of manufactured housing financing. As of August 2017, we are still awaiting an update from HUD on the recommendation. Therefore, this recommendation remains open. We plan to continue to follow up with HUD on the status of this recommendation.

PREPARED STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM UTAH

WASHINGTON—Senate Finance Committee Chairman Orrin Hatch (R–Utah) today delivered the following opening statement at a hearing to examine effective ways to increase access to affordable housing:

This is an important issue, and this hearing will allow the committee to hear from experienced and well-educated witnesses who can provide more context on our affordable housing policies and the sections of the tax code that were written with the intent of mitigating this long-time problem in our society.

As many of you are aware, the last time we underwent a national, comprehensive revision of the tax code was in 1986, with the passage of the Tax Reform Act. At that time, affordable housing tax incentives were baked into statute, with the Low-Income Housing Tax Credit being chief among them.

Since then, this important section of the tax code has enjoyed bipartisan support. Still, it is worth examining the law as we continue to ramp up our work on tax reform.

Throughout today's hearing, I want each member to keep in mind some guiding principles for tax reform. I've repeated these principles quite a bit in recent years. But, for those in the audience who may not have heard me mention them, the principles are: fairness, efficiency, simplicity, and American competitiveness.

These principles are important within the context of affordable housing tax policy because they should be able to help us improve upon what is currently in the code. I know the prospect of more oversight can be seen as a challenge, but I think we should all view this examination as an opportunity to determine where we can improve.

While some sections of the tax code have undergone changes in the past three decades, solutions on affordable housing remain as elusive as ever.

There seem to remain many households facing cost burdens associated with renting, with perhaps as much as 26 percent of renter households having paid more than half of their incomes in rent in 2015, for example. And the burdens seem to fall heavily on lower-income households.

And this is not just simply a problem of arithmetic. In 2015, 25 million children lived in households in which rent comprised a fairly large share of household income.

This is a problem that should be ready for a bipartisan solution. We've already introduced bipartisan legislation to address some of these issues. And, many are hopeful that cooperation on these efforts will continue. I believe they will.

With that, I would just like to thank everyone for attending today and I look forward to hearing from our distinguished panel of witnesses.

PREPARED STATEMENT OF GRANGER MACDONALD, CHAIRMAN, BOARD OF DIRECTORS, NATIONAL ASSOCIATION OF HOME BUILDERS

On behalf of the approximately 140,000 members of the National Association of Home Builders (NAHB), I appreciate the opportunity to testify today.

My name is Granger MacDonald, and I am CEO of the MacDonald Companies based in Kerrville, TX. I am a proud second-generation builder with 40 years of experience in real estate development. I run the business my parents founded in the mid-1950s to meet post-war demand for affordable housing. My son Justin serves as president of our business, continuing our family legacy.

Our company specializes in the construction and management of affordable rental housing, and we currently own and manage 4,700 units in 41 communities in 25 Texas cities. I have constructed affordable rental housing with the Low-Income Housing Tax Credit (LIHTC) since 1997. I am proud to have committed my life's work to providing safe, decent, affordable housing to thousands of Texans.

NAHB is a Washington, DC-based trade association focused on enhancing the climate for housing, homeownership and the residential building industry. We represent builders and developers who construct many types of housing—including single-family for-sale homes, affordable and market-rate rental apartments, and remodelers. About one-third of our members are builders and remodelers; the other two-thirds work in closely related specialties, such as sales and marketing, insurance, and financial services.

NAHB is a member of the A Call To Invest in Our Neighborhoods (ACTION) Campaign, a grassroots coalition of over 2,000 national, State, and local organizations and businesses calling on Congress to protect, expand and strengthen the Low-Income Housing Tax Credit.

While the housing industry continues to recover slowly from the Great Recession, housing affordability in both the single and multi-family markets has become a rising challenge in the industry. Multifamily housing affordability has reached crisis proportions. The number of renter households considered "severely cost burdened," meaning they spend more than half of their monthly income on rent, is at an all-time high of 11.4 million.[1] That translates to more than one in four of all U.S. renters.

I am grateful to the committee for focusing today's hearing on this important issue. The tax code plays a major role in multifamily development, most visibly through the Low-Income Housing Tax Credit.

The best solution to this crisis is to pass S. 548, the Affordable Housing Credit Improvement Act of 2017. This bipartisan bill provides needed additional resources and includes other reforms to promote the construction of affordable housing nationwide.

AFFORDABLE HOUSING DEVELOPMENT REQUIRES POLICY SUPPORT

To understand what is needed to address the affordable housing crisis, you need to understand the challenges facing the development community.

Let me be direct. Where there is housing demand, as a businessman, I want to supply that demand. But there is no magic wand to erase basic development costs. Fees, regulatory compliance, modern building and energy codes, building materials, land and labor costs determine whether a project is financially viable. If we want to provide affordable rental housing for lower-income households, it is financially impossible to do so without a subsidy.

A 2011 study from the Harvard University Joint Center on Housing Studies reiterates this point: "[t]he rising costs of construction make it difficult to build new housing for lower-income households without a subsidy."[2]

In 2009, the median asking rent for new unfurnished apartments was $1,067; for minimum-wage workers, an affordable monthly rent using the 30% of income standard is just $377.[3] The study calculated that to develop new apartments with rents affordable to households with incomes equivalent to the full-time minimum wage, the construction costs would have to be 28% of the current average.[4]

Without Federal assistance, it is financially infeasible to construct new, unsubsidized affordable rental units. The LIHTC is a critical program, and as noted in the study, "[a]t present, the Low-Income Housing Tax Credit (LIHTC) program is nearly alone in replenishing the affordable stock, supporting both new construction and substantial rehabilitation of existing properties including older assisted developments."[5]

We also need to recognize the important role affordable housing plays in our communities. There are meaningful social effects, which can be seen as middle- and lower-income Americans try to make ends meet. I see how affordable housing creates stability for my tenants and their families. My properties help to revitalize neighborhoods. Breaking the cycle of poverty starts with access to stable and affordable housing.

The housing affordability crisis affects our economy as well. It costs us jobs, productivity and economic growth. I challenge everyone in this room to ask the owners of the small businesses you frequent about labor shortages. Housing affordability is critical in areas of the country experiencing robust economic growth. As the number of open, unfilled jobs grows, the operation of the housing market plays a key role in allowing individuals to relocate to areas where jobs need to be filled. And if we don't address this issue, where do our employers find their workers? How do we grow the economy?

And for our fellow citizens who want to realize the American dream, if they cannot afford to live where the economic opportunities are, we are just creating an economic divide based on housing "haves" and "have nots."

This isn't complicated economics here. Simple supply and demand. To address it, we need to commit to increasing supply. That is why I respectfully ask you to support and pass S. 548.

[1] Harvard University Joint Center for Housing Studies (JCHS), "The State of the Nation's Housing 2016."
[2] "America's Rental Housing: Meeting Challenges, Building on Opportunities," Joint Center for Housing Studies of Harvard University, 2011. Page 23.
[3] Page 23 and 21.
[4] Page 24.
[5] Page 5.

DEVELOPMENT COSTS ARE INCREASING: FACTORS DRIVING UP COSTS

Regulation

Increasing costs due to regulation are a significant challenge for the residential construction industry. For example, regulatory costs at all levels of government now make up roughly 25% of the price of a home and have increased by one-third since 2011.[6] Costs incurred in the development stage alone account for over half of the cost of a finished site sold to a builder. At the local level, jurisdictions may charge permit, hook-up, and impact fees, and establish development and construction standards that either directly or indirectly increase costs to builders and developers. The Federal Government can also affect the price of a home. For example, the government may require permits for stormwater discharge on construction sites, which may lead to delays in addition to permit costs.

Building Materials

Building material price increases continue to outpace inflation by a wide margin, significantly increasing development costs nationwide. For example, since the start of this year, the industry average price of framing lumber has increased 18%. The cost of many softwood lumber products has risen well over 30% in the same period, and lumber futures suggest that prices are expected to keep climbing. The increase in softwood lumber prices adds nearly $500 to the development and acquisition cost of a typical multifamily unit.[7]

The costs of other materials used in residential construction have also risen significantly. Oriented strand board (OSB), commonly used as sheathing in walls, flooring, and roof decking, is nearly 30% more expensive than in August 2016. The price of drywall has also increased 9% over the same period.

Labor Shortages

Labor costs and availability remain large problems. In 2012, only 21% of builders reported labor cost or availability problems. That figure rose to 46% in 2014 and increased to 56% in 2016. The rate of construction job openings has risen substantially in the past year, meaning builders have available jobs but cannot find people to fill them.[8] This translates into higher prices and/or construction delays, both of which increase project costs.

Lot Shortages

Another significant problem is the availability and supply of sites ready for construction. In a recent NAHB survey, 64% of builders cited site availability as "low" or "very low." Unsurprisingly, the price of sites has gone up as well, with 65% of builders saying prices were "substantially" or "somewhat" higher than they were a year ago. Taken together, the cost and availability of sites was cited as a significant problem by more than 60% of builders in 2016, a nearly threefold increase from 2011, when only 21% of builders identified site supply as an issue.

There are many inputs that go into developing a multi-family project, and they have all increased in price in the past few years. This adds to the strain of the existing affordable housing resources. Put simply, projects require additional financial support, yet financial resources remain either flat or have been significantly reduced, as in the case of Federal programs like HOME.

THE LIHTC IS A SUCCESS STORY, BUT DEMAND EXCEEDS RESOURCES

The Low-Income Housing Tax Credit (LIHTC) was created during the Reagan administration as part of the Tax Reform Act of 1986 as a more effective mechanism to produce affordable rental housing. It is the most successful affordable rental housing production program in U.S. history. Since its inception, the LIHTC has produced and financed more than 2.9 million affordable apartments. As LIHTC properties must generally remain affordable for 30 years or longer, they provide long-term rent stability for low-income households around the country. But the demand for affordable housing is acute and exceeds the availability of financing through the LIHTC program.

The LIHTC is a unique private-public partnership. The benefits of this structure are evident in the quality of the projects. Moreover, NAHB estimates that the

[6] *http://eyeonhousing.org/2016/12/top-posts-of-2016-regulation-is-24-3-percent-of-the-average-new-home-price/.*

[7] *http://eyeonhousing.org/2017/06/duties-on-lumber-now-enough-to-threaten-thousands-of-u-s-jobs/?_ga=2.116462790.1957391554.1501190622-192765943.1501190622.*

[8] *http://eyeonhousing.org/2016/06/more-builders-report-laborsubcontractor-shortages/.*

LIHTC program in a typical year supports 95,000 new, full-time jobs, adds $7.1 billion to the economy, and generates approximately $2.8 billion in Federal, State, and local tax revenue. Unfortunately, the supply of private, affordable housing stock is rapidly shrinking. According to a 2011 Harvard study:

> . . . the private low-cost stock is rapidly disappearing. Of the 6.2 million vacant or for-rent units with rents below $400 in 1999, 11.9% were demolished by 2009. Upward filtering to higher rent ranges, conversions to seasonal or non-residential use, and temporary removals because of abandonment added to the losses. On net, more than 28% of the 1999 low-cost stock was lost by 2009.[9]

And the private marketplace needs a subsidy to build new construction to replace those lost units.

While no program is perfect, the LIHTC works incredibly well. Its public-private partnership model is one that frankly should be replicated in other government programs. When I start a LIHTC project, my investors and I assume all the risk. If the project fails, the taxpayer is protected, as the IRS can and will reclaim the tax credits. Since the investors cannot claim the credits until after the project is placed in service, it is the rare public program where the taxpayer gets what they are paying for, or the taxpayer does not pay.

A key component to the LIHTC's success is the flexibility the State agencies have to target specific types of affordable housing developments. For example, a State with a large population of seniors may offer a developer bonus points on an application for focusing on senior housing. Nationally, in 2014, approximately 27% of LIHTCs were directed to senior housing.[10] Other targeted projects include assisted living; family housing; homeless; and housing for the disabled. This flexibility allows each State to determine what types of affordable housing are best suited to the demographics of their State, rather than applying a single, national standard. Ultimately, however, a lot of needs are not being met as demand simply outstrips the availability of credits.

As the map below shows, every State has a large population of rent-burdened households. Correspondingly, demand for credits greatly outstrips the resources available. According to the most recent annual survey released by the National Council of State Housing Agencies (NCSHA), State housing finance agencies generally receive more than $2 in requests for every $1 in LIHTCs available. In 2014, State agencies received applications for $1,836,172,240 in credits. Total allocations were $775,844,195. This means that for every tax credit allocated, there was a demand for approximately 2.4 tax credits.[11]

But this does not tell the whole story. As an experienced developer, I will not submit applications for viable projects when there are inadequate resources to support it. So there is a shadow demand for credits not reflected in the above data.

Nationally, demand varies somewhat from year to year but generally remains high. It is useful to compare the 2014 national numbers against 2008, 2008 was the height of the financial crisis, and multifamily development was at a low point. Many traditional LIHTC project investors were not investing, which made putting together deals much more challenging. Nationally, there were applications for $1,873,311,018 in credits. Credits allocated were $939,924,853.[12] Even in one of the most challenging times for real estate development, demand was still double the amount of available credits.

Looking back to better times in 2006, there were applications for $1,509,779,928 in credits. Credits allocated were $691,073,326,[13] 2006 had approximately $2.20 in credit requests for every $1 available. We can see over several years and in different economic environments, demand for tax credits remained steady at double or more of the available credits.

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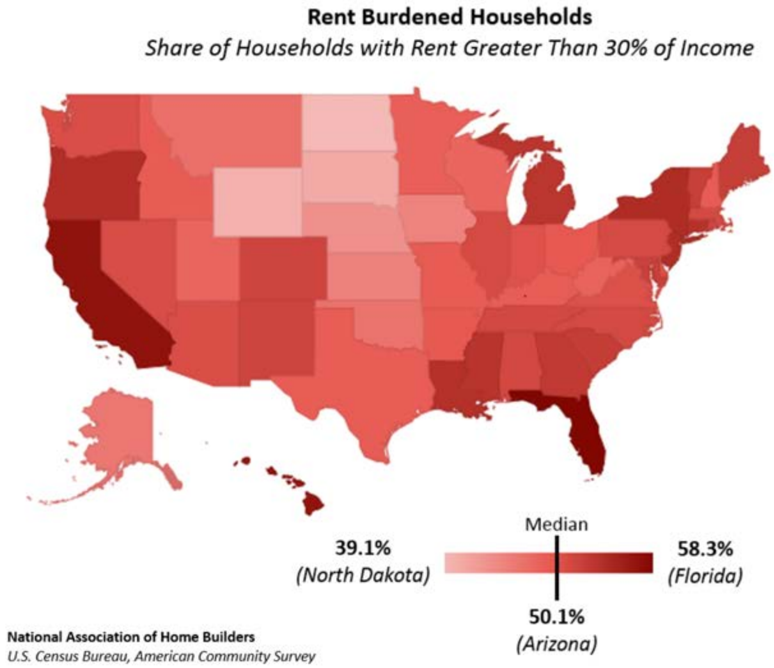
[9] "America's Rental Housing: Meeting Challenges, Building on Opportunities," Joint Center for Housing Studies of Harvard University, 2011. Page 6. *http://www.jchs.harvard.edu/publications/rental/rh11_americas_rental_housing/AmericasRentalHousing-2011.pdf.*

[10] 2014 NCSHA State FHA Factbook. Page 111.

[11] Page 94.

[12] State HFA Factbook: 2008 NCSHA Annual Survey Results. Page 92.

[13] State HFA Factbook: 2006 NCSHA Annual Survey Results. Page 88.



LIHTC development remains stable because the need for affordable housing is significant. Consistent demand for credits also reflects the advantage of creating this credit in the tax code. Investors have confidence in the predictability of the tax code, which allow LIHTC developments to continue even during economic downturns. The LIHTC enables a fairly constant supply of affordable housing, as well as a financing mechanism that ensures long-term operation of affordable housing. In fact, LIHTC tax credit projects outperform the rest of the multifamily housing sector in one key measure: the annualized foreclosure rate. This rate is less than one-tenth of a percent [14] and a third of the rate for other multifamily properties. The success of these projects partially reflects the ever-present threat that the government can recapture tax credits if the project fails.

To start meeting the growing and significant demand for affordable rental housing, we must increase resources supporting production. S. 548 takes a significant and needed step to boost supply by increasing LIHTC allocations by 50%. NAHB estimates that based on the estimates of the bill's sponsor that enacting S. 548 would result in an additional 400,000 LIHTC units over the next 10 years, the economic effects from that construction would increase Federal tax revenue by $11.4 billion and State and local revenues by $5.6 billion over 10 years.

Failure to take action now will only deepen the crisis. Rental housing demand remains solid, and more housing is needed to help address growing affordability challenges. For example, the peak age of the Millennials is approximately age 27. While historically the typical age of a first-time home buyer is just above age 30, we can expect continued demand for rental housing in the years ahead. Absent new supply, this demand will increase rents and worsen existing affordability issues.

[14] "The Low Income Housing Tax Credit: Assessment of Program Performance and Comparison to Other Federal Affordable Rental Housing Subsidies," by Novogradac and Company, LLP, 2011, page 4. *https://www.novoco.com/sites/default/files/atoms/files/special_report_lihtc_assessment_program_performance_052313.pdf.*

COST CONTAINMENT: EFFECTIVELY UTILIZING EXISTING RESOURCES

Reducing and containing LIHTC development costs is a critical, yet difficult, balancing act. For starters, there are simply more fees associated with LIHTC development, which can account for 10% of the cost of a project. These fees are associated with compliance and necessary to ensure that the program is fulfilling its intended goals. Other trends which have understandable policy goals, such as locating affordable housing near transit hubs or in higher-income neighborhoods, result in higher development costs. Land costs tend to be significantly higher when constructing near transportation centers, and wealthier communities may require more expensive exterior architectural details to blend into the surrounding neighborhood.

But we have also seen a growing trend towards gold-plating Qualified Allocation Plans (QAPs). Every State housing finance agency develops a QAP, which establishes the criteria used by the State for awarding tax credits. States have significant latitude to write a QAP to ensure that resources are meeting the unique affordable needs of each State. As mentioned earlier, a State QAP may steer more investment into affordable seniors housing, for example. This flexibility is important, but should have some limits. One troubling trend we are seeing is QAPs pushing energy efficiency requirements significantly above the current code requirements, which can greatly increase project costs. Pennsylvania, for example, is pushing for “net zero energy” projects, which is not even common in high-end single-family homes.

A more cost-effective means of promoting energy efficiency is through tax incentives. While a number of energy efficiency tax credits, such as section 45L, the New Energy Efficient Home Tax Credit, have been allowed to expire, they were not utilized for LIHTC development because they required a basis adjustment. Because the total basis in a property determines the amount of LIHTCs a project can be awarded, using an energy tax credit that requires reducing basis in the project had the effect of reducing the amount of LIHTCs the project received—offsetting any gains from the energy efficiency tax credit. Section 311 would remove this barrier by eliminating the LIHTC basis adjustment requirement when using energy tax credit. NAHB strongly supports section 311 and also urges the committee to restore the section 45L tax credit and section 179D deduction.

QAPs should weigh the cost and benefit of various development requirements to produce as much affordable housing with the limited resources we have, but unfortunately that does not always occur. As an example, Texas briefly considered, and fortunately rejected, a proposal to require LIHTC projects to include a carport. At the time, it made me wonder if we were housing cars or people. The quality of affordable housing built under the LIHTC is part of the program’s 31-year success story, but we cannot lose sight that this program’s goal is to produce and preserve as much affordable housing as possible. We must strike a reasonable balance between development requirements and cost.

Local governments may also impose costly requirements on development, which apply whether the project is market-rate or affordable. In one Texas community, I was required to plant 200 trees, which probably doubled the number of trees in this community. Sadly, the community also had water restrictions due to a drought, so while the trees were planted as required, I could not water them, and most died. This is simply the reality of developing housing in this country. While academics may offer assorted ideas on how affordable development should work, until you have actually done a deal, you cannot possible understand the challenges developers face.

Some criticize the program for not directing more affordable housing to higher-income communities. This is an interesting academic debate, but let me shed light on the challenges I face as a developer working in higher-income communities. The Texas QAP awards bonus points, without which receiving an allocation is nearly impossible, for LIHTC projects that are endorsed by the appropriate State legislator and the local community, even if that project is otherwise permitted under the municipality’s comprehensive plan and zoning rules. In other words, if I was building a market rate project, I could simply pull the permits and start construction. But for tax credit projects, developers are subject to a special review process that oftentimes results in community opposition.

Any affordable housing developer in Texas has many stories of battling community opposition simply because the project would serve lower-income residents. The problem is so acute that *The New York Times* recently highlighted the challenges

Texas developers face when building in higher-income areas.[15] The article quoted a resident who is opposing an affordable housing project in the Houston, Texas, area: "I will fight very hard before I give up that privilege and dignity to those who, either from lack of initiative or misfortune, don't deserve to be there." If we are going to break the cycle of poverty and ensure all Americans have equal opportunity to succeed, we must reject the notion that only some people "deserve" to live in well-off communities. I can assure the committee that this reaction is not unique and is often associated with racial undertones. Nonetheless, this is a real-world challenge that developers of affordable housing across the country face on a daily basis.

Fortunately, relief is possible. Section 308 of S. 548 would prohibit State QAPs from requiring special local approval of LIHTC developments. This will ensure that if the zoning allows it, I will be able to develop affordable housing on the same terms as a market-rate project.

IMPROVING UTILIZATION OF EXISTING RESOURCES: CREATE A MINIMUM FLOOR FOR 4% CREDITS

Under the Low-Income Housing Tax Credit (LIHTC) program, affordable housing developments receive tax credits that are used to attract equity capital. There are two types of tax credits: one credit provides 70% of the financing cost and is used for new construction and substantial rehabilitation; and a second credit that provides 30% of the financing cost and is used to acquire an existing property for rehabilitation. These are often referred to as the 9% and 4% credits, respectively, because that was the original credit amount when the program was created in 1986.

The Tax Reform Act of 1986 did not fix those credit rates at 9% and 4%, but rather created a floating rate system where the credit rates are adjusted on a monthly basis. The IRS calculates the monthly values of the credits based on the cost of borrowing by the Federal Government. As a result, today's low Federal borrowing costs produce very low credit rates, which reduces the amount of private equity invested in LIHTC development. For August 2017, the 9% credit was only worth 7.52%; the 4% credit was worth 3.22%. These low rates reduce the amount of equity properties could receive by more than 15%, making it more difficult to do LIHTC developments, particularly as State and Federal governments cut back on direct spending that is used to fill financing gaps for LIHTC properties. The "floating rate" system also creates uncertainty for owners and investors, and complicates State administration of the program.

In response to the declining rates, the Housing and Economic Recovery Act of 2008 (HERA) set the rate for new construction and substantial rehab credits from each State's allocation at no less than 9%, which was the rate when the program was created. The provision was then extended for credits allocated by the end of 2013 through the American Taxpayer Relief Act of 2012 (ATRA). The 9% minimum floor was made permanent in the Protecting Americans from Tax Hikes Act of 2015 (PATH ACT).

Unfortunately, while the Finance Committee has favorably reported legislation that included a minimum 4% credit floor for acquisition, the legislation enacted into law (HERA, ATRA and the PATH Act) failed to address the 4% credit. S. 548 will correct this by creating a minimum floor for 4% credits. Applying the minimum floor rate for 4% credits would similarly remove the uncertainty and financial complexity of the floating rate system, simplify State administration, and increase the number of units that can be preserved and developed into affordable housing. As our housing stock ages—the first LIHTC projects are now over 30 years old—preservation and rehabilitation is a cost-effective tool.

INCOME AVERAGING

The LIHTC serves tenants with an area median income (AMI) of no more than 60%. Many tax credit projects target significantly lower-income individuals. It is important to recognize that the tax credit only partially covers development costs. LIHTC projects also rely on other sources of financing, including a mortgage. The amount of debt a project can take on is determined by rental income. As rent is based on the tenant's income, projects targeting lower-income residents cannot assume as much debt, which may affect the financial viability of a project.

[15] "Program to Spur Low-Income Housing Is Keeping Cities Segregated," *New York Times,* July 2, 2017.

Section 201 of S. 548 would allow for income averaging, providing States with the flexibility to target lower-income tenants while also ensuring the financial viability of the project by allowing a limited number of units to serve tenants with incomes up to 80% of AMI. This is an excellent solution for achieving income targeting below the current 60% AMI minimum while ensuring that the project is viable and can be built. However, the entire project must still maintain an average income of 60% or below.

IMPROVE RURAL AFFORDABLE DEVELOPMENT OPPORTUNITIES

My company specializes in rural affordable housing development, which has unique challenges. Although housing costs tend to be lower in rural areas, these areas are often plagued with lower incomes and high poverty rates. Nearly half of rural renters are rent-burdened, paying more than 30% of their income in rent. Rural areas also often have limited rental options.

S. 548 includes a number of provisions that will enhance rural development opportunities. They include income averaging, discussed above, but also standardizing rural income limits. The bill also provides a basis boost for projects serving extremely low-income tenants. This is an important provision considering that rural residents' income tends to be lower than in urban areas. The bill would also encourage development in Native American communities, which are home to some of our most vulnerable rural residents.

TAX REFORM AND THE LIHTC: PRESERVING PRODUCTION LEVELS IN THE NEXT GENERATION TAX CODE

NAHB believes that lower rates, simplification, and a fair system will spur economic growth and increase competitiveness. And that's good for housing, because housing not only equals jobs, but jobs mean more demand for housing. As the committee moves forward on tax reform, NAHB wants to be a constructive partner and help the committee with this important issue.

Corporate tax reform poses a unique challenge to syndicated tax credits such as the LIHTC. Investor valuation of a tax credit is based on how much tax liability that credit offsets. As the committee considers lowering the corporate tax rate, NAHB also recommends the committee consider options to ensure that tax credit equity remains stable. We believe that a lower corporate rate and a robust LIHTC are both possible to achieve.

Earlier this year, we saw a significant drop in tax credit pricing throughout the country as investors began to assume a drop in the corporate tax rate. In some cases, projects were unable to move forward. We believe the effects of the lower corporate tax rate on LIHTCs can be mitigated through two policy changes.

The first recommendation is to update the discount rate formula used to calculate the 9% and 4% credit rates. The basis of that formula reflects the cost of borrowing for the Federal Government, which is not a reflection of investor return in the private market. The formula can also be adjusted based on the final corporate tax rate to ensure that tax credit equity remains stable.[16]

The second recommendation is to expand the investor base. Greater demand for credits will increase pricing. Currently, most tax investors are financial institutions, as tax credits also help banks meet their Community Reinvestment Act obligations, as well as other large C-Corps with stable and constant profits. Individuals, pass-through businesses, and S-Corp banks are largely shut out of the tax credit market due to the current passive-loss rules. While C-Corps can fully claim passive losses, and are therefore willing to pay a higher price for tax credits, individuals and pass-throughs are limited to a $25,000 deduction. NAHB does not recommend a complete repeal of the passive loss rules, but rather suggests that additional flexibility for individual investors and pass-throughs investing in LIHTCs should be considered.

We believe a targeted tweak of the passive-loss rules would also enhance deals in smaller communities, particularly rural areas, where tax credits can be marketed to local professionals.

[16] *See: https://www.novoco.com/notes-from-novogradac/how-congress-could-offset-effects-affordable-housing-production-reduced-corporate-rate.*

CONCLUSION

The challenges of housing affordability are increasing. In some communities, even middle-class households are feeling the financial strain of today's housing costs. The problem is simple: we lack enough affordable housing. The only effective, long-term solution is to increase supply. S. 548 would greatly enhance our ability to increase the supply of affordable rental units, and NAHB urges the committee to mark up and favorably report out the bill.

We also must recognize that without a sizable investment in our housing stock, particularly as older units reach obsolescence, we risk a worsening problem for middle-income Americans. We commend Senator Wyden for recognizing this emerging problem and his legislation last Congress to create a Middle Income Housing Tax Credit (S. 3384), modeled on the LIHTC. NAHB would also urge the committee to take up this legislation. Frankly, addressing these challenges now before they reach a national crisis point will be much cheaper in the long-run.

NAHB greatly appreciates the overwhelming bipartisan Senate support to solve our affordable housing crisis. In this era of increasingly partisan political discord, I hope we can all unite around this issue and take action. Shelter is a basic human need, and we have an opportunity to do something that not only makes good economic sense, but will uplift the lives of millions of Americans.

NAHB stands ready and willing to help.

PREPARED STATEMENT OF KIRK MCCLURE, PH.D., PROFESSOR, URBAN PLANNING PROGRAM, SCHOOL OF PUBLIC AFFAIRS AND ADMINISTRATION, UNIVERSITY OF KANSAS

REFORM OF THE LOW-INCOME HOUSING TAX CREDIT PROGRAM

How does the Low-Income Housing Tax Credit (LIHTC) program work?

Tax credit authority is allocated annually from the Federal Government to each State which, through its Housing Finance Agency (HFA), awards the tax credits to development proposals. The annual allocations totaled to about $7.6 billion in fiscal year 2015 (Gramlich, 2015).

Each developer sells the tax credits to investors who join into the ownership of the development with the proceeds from the sale of the tax credits used to pay for a portion of the development costs. In exchange for receiving the tax credits, developers agree to limit the rents on the housing units to levels affordable to low-income households and to maintain low-income occupancy in the tax credit supported units for a period of at least 15 years.

How has the program performed?

The program began in 1987 and produced about 2.6 million low-income units since its inception. Annually, the program typically produces about 90,000 units in 1,400 projects.

Who is served by the program?

The income ceilings for participation in the LIHTC program vary with the metropolitan area or with the county if the location is outside of a metropolitan area. The maximum income for a household occupying a tax credit unit is a set percentage of the Area Median family Income (AMI). The LIHTC program limits the highest income of households who reside in LIHTC units at either 50 percent or 60 percent of the AMI, depending upon developer selection and State HFA preferences. In 2015, the national median family income was $66,011. Thus, the program tends to serve households with incomes below either $33,000 or $40,000.

The U.S. Department of Housing and Urban Development (HUD) defines low-income somewhat differently than does the LIHTC program, but the HUD definitions are helpful for understanding which households are served by the various low-income housing programs. HUD defines any household as low-income if its income is below 80 percent of the AMI. HUD further defines two subsets of the low-income households as: (1) Very low-income, those with income between 30 and 50 percent of AMI; and (2) Extremely low-income, those with income below 30 percent of AMI. These distinctions are important because markets very widely in terms of which category of low-income renter households suffer from shortages of units.

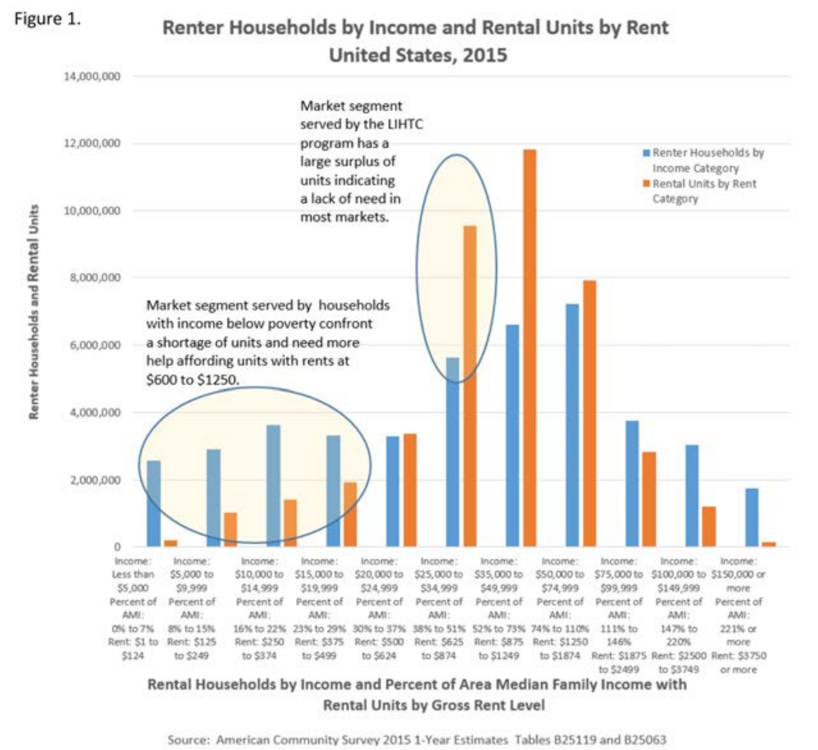
O'Regan and Horn (2013) find that about 45 percent of LIHTC households have incomes below 30 percent of AMI, and 55 percent have incomes between the 30 percent and the 60 percent ceiling level. Low-income households with income in the upper tier, between 60 and 80 percent of AMI, are not permitted into the units as their income is too high. Households with incomes in the lowest tier, below 30 percent of AMI, can usually afford the rents charged in LIHTC developments only if they have additional subsidy through the Housing Choice Voucher (HCV) program. Williamson (2011) found that about 10 percent of Florida LIHTC households had vouchers. Thus, most non-voucher LIHTC households tend to have income at the middle tier of the low-income levels or about $20,000 to $40,000. For comparison, public housing and the HCV programs serve the poorest tier of the low-income renter population, households with an average income of about $14,000 (calculated from HUD data for 2015).

Does the LIHTC program produce units in a price range where there is a need?

If the LIHTC program tends to serve households with incomes in range of $20,000 to $40,000, does this income segment suffer from a shortage of rental units priced so that they can afford the units?

Figure 1 divides the rental housing stock of the Nation into market segments. Renter households are divided into income categories from the American Community Survey, 2015. Rental units are divided into categories based on gross rents (rents plus utilities). These rent categories correspond to the renter income categories assuming that these households spend 30 percent of income on housing, which is about the median level of spending for renters nationwide.

Figure 1.



For example, a household with income of $25,000 per year can afford a unit with rent at $625, and a household with and income of $35,000 can afford rent of $875. Thus, the rental units with gross rents from $625 to $875 can be compared to the numbers of households with incomes from $25,000 to $35,000. In rent categories where the number of units exceeds the number of renter households, a surplus exists, and where households exceed units, a shortage exists.

The segment of the rental housing market served by the LIHTC program has a large surplus of units. There are many more units renting in the price range of $625 to $875 per month than there are households with incomes in the range of $25,000 to $35,000, the households who can afford units in this price range. This is the market segment where the LIHTC is adding units.

It is a very different story in the rental housing market segment served by the HCV program. This program assists households with incomes below $20,000. Households in this market segment can only afford rental units with much lower rents, averaging about $350 per month. All the market segments with rents below $500 have fewer units than there are households.

Thus, the LIHTC program is adding units to a market segment with a large surplus of units indicating a lack of need in most markets.

Does the LIHTC program locate units in tracts with a shortage of units?

What is true for the Nation as a whole is not necessarily true for individual markets. While the Nation may have a surplus of units in the market segment with rents from $625 to $875, many individual markets may have a shortage. The LIHTC could be the right form of governmental intervention to resolve this problem if it is targeting those locations with shortages.

Table 1 indicates that LIHTC units are being located in census tracts that do not have a shortage of rental units in the price range serving low-income renter households. Table 1 categorizes the 73,000 census tracts in the Nation by comparing the number of renter households with income between $25,000 to $35,000 to the number of rental units with rents between $625 and $875. If the LIHTC program is working well, it should be locating units in tracts with a shortage of units in this price range compared to the number of households in the income range.

Table 1. Low-Income Housing Tax Credit Units by Tract Rental Market Need

Number of rental units with rents $625 to $875 minus renter households with income of $25,000 to $35,000

Rental market need category	*Tracts (Percent)*	*LIHTC Units (Percent)*
Shortage 200 or more units	231 (0.3%)	18,013 (0.7%)
Shortage 50 to 199 units	5,102 (7.0%)	190,868 (7.9%)
Balanced −49 to +49 units	39,033 (53.4%)	687,597 (28.3%)
Surplus 50 to 199 units	**21,966 (30.1%)**	**929,850 (28.3%)**
Surplus 200 or more units	**6,724 (9.2%)**	**603,944 (24.9%)**
Total	73,056 (100.0%)	2,430,272 (100.0%)

Source: American Community Survey, 2015, 1-year estimates; HUD LIHTC Database, 2017.

Fewer than 9 percent of LIHTC units are located where there is a shortage. This is not entirely surprising as fewer than 8 percent of all the tracts in the Nation have a shortage suggesting that the need for units in the price range served by the LIHTC program is small. Over one-half of all LIHTC units are in tracts with a surplus of more than 50 units. One-fourth of all LIHTC units are in tracts with a surplus of 200 or more units.

Does the LIHTC add new units to tight markets and rehabilitate existing units in soft markets?

It would be expected that the program would add new construction units to tight markets, those with low vacancy rates, and rehabilitate existing units in soft markets, those with high vacancy rates.

Table 2. LIHTC Units by Construction Type in Tracts by Rental Vacancy Rate

Rental Vacancy Rate	LIHTC Units		
	New Construction	Units Rehabilitation	Type Known
Tight 0% to 4.9%	440,692 59%	305,227 41%	745,919 100%
Normal 5.0% to 6.9%	155,153 58%	113,323 42%	268,476 100%
Soft 7.0% to 9.9%	207,558 60%	139,446 40%	347,004 100%
Very soft 10%+	357,266	232,960	590,226

Table 2. LIHTC Units by Construction Type in Tracts by Rental Vacancy Rate—Continued

Rental Vacancy Rate	LIHTC Units		
	New Construction	Units Rehabilitation	Type Known
	61%	39%	100%
Total	1,160,669 59%	790,956 41%	1,951,625 100%

Source: American Community Survey, 2015, 1-year estimates; HUD LIHTC Database, 2017.

The LIHTC program favors new construction over rehabilitation in all markets. Nine percent credits are awarded against new construction costs, and 4 percent credits are awarded against rehabilitation costs, independent of market conditions.

Developers have responded by developing 47 percent more new construction units than rehabilitation units. There is a strong tendency for the program to produce new construction units over rehabilitation units without regard to the rental vacancy rate.

Does the LIHTC program support mixed-income housing?

Research demonstrates that projects wholly populated by the poor are not good for the households, the developments or the surrounding neighborhoods (Smith 2002). Mixed-income housing is a more beneficial format for everyone involved (Kleit 2005).

The LIHTC program does not provide any incentives to developers to generate mixed-income housing. Rather, the program sets minimums, rather than maximums, on the percentages of households with incomes below 50 percent and 60 percent of AMI. As a result, 76 percent of all LIHTC developments are occupied entirely by low-income households. Fewer than 3 percent are configured with market-rate units comprising more than one-half of all units.

Conclusions and recommendations

It can be concluded that the LIHTC program is:

- Serving a segment of renters with a surplus of units and not serving the lowest-income segment with a shortage of units.
- Adding units to neighborhoods with a surplus of units and failing to add units where there are shortages.
- Favoring new construction over rehabilitation independent of market condition.
- Not promoting mixed-income housing.

It is time to rethink how the LIHTC program works. Four changes are recommended:

More rigorous market analysis: State Housing Finance Agencies should have to justify each LIHTC allocation by demonstrating a market need. Each HFA should have to show that both neighborhood and metropolitan vacancy rates justify production subsidies. The HFA should have to find that vacancy rates are low and that a shortage of units exists at the price point to be served by the proposed LIHTC development. There is little value in adding units to a market that has a high rental vacancy rate or in adding units to a market segment that is saturated.

Exchange tax credit authority for voucher authority: Currently, housing authorities can convert up to 20 percent of tenant-based voucher contract authority into project-based voucher authority. HFAs should be permitted the same latitude to convert project-based LIHTC funding into vouchers. These vouchers could be tenant-based vouchers, permitting extremely low-income households to rent apartments in the market if market conditions suggest this to be the preferred approach. These vouchers could also be project-based vouchers that could be layered on top of LIHTC subsidy to serve households who could not otherwise afford the tax credit units. These vouchers would help the LIHTC program both serve households with extremely low income as well as permit these households to pay a rent based on their incomes, rather than a flat rent now used in the LIHTC program. This approach prevents a high housing cost hardship among these households.

Favor rehabilitation over new construction: The LIHTC program should be modified so that it favors the appropriate type of development for each market. The higher 9 percent credits should be given for rehabilitation and the lower 4 percent credits should be given to new construction developments. The higher 9 percent credits would only be available to new construction units if the market is truly tight (the rental vacancy rate is very low) or the new units are replacing severely deteriorated units.

Favor mixed-income development: The LIHTC should mandate mixed-income occupancy in most developments. A majority of the units in each tax credit supported development should be set-aside for market-rate occupancy. A development that is configured with a majority of units for low-income occupancy should be permitted only in a highly distressed area where mixed-income housing is not feasible and the tax credit development contributes to a community revitalization strategy.

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QUESTIONS SUBMITTED FOR THE RECORD TO KIRK MCCLURE, PH.D.

QUESTIONS SUBMITTED BY HON. ORRIN G. HATCH

Question. Are there State and local issues we should consider, or at least keep in mind, such as zoning requirements and land use regulations, that are working against us in that they make housing artificially more expensive or otherwise limit its availability?

Are there ways we can and should account for that, such as by applying certain requirements to Federal incentives for affordable housing?

Answer. One of the great success stories of the Low-Income Housing Tax Credit (LIHTC) program has been its ability to locate units in low-poverty suburban neighborhoods. The LIHTC program is able to do this on par with the Housing Choice Voucher program. The voucher program would be expected to perform better due to the mobility granted to participating households. However, the LIHC developers have managed to overcome many of the barriers that suburban communities so often use to stop affordable housing from locating in their midst.

S. 548 includes a provision that would prohibit States from requiring local approval of LIHTC developments. This much-needed reform to the LIHTC program would remove a barrier that communities use to limit the availability of affordable housing and will help the program perform even better.

Question. In your testimony you noted that the LIHTC program does not produce units in price ranges where there are shortages of units; that it is not very efficient at adding new units to tight markets and rehabilitating existing units in soft markets; and that it does not support mixed-income housing.

How would you recommend that the program be reformed to address these issues?

Answer. The LIHTC program needs reforms that will cause it to better fit housing market conditions. The program needs improvements in terms of:

- Reaching the poorest renters confronting the greatest need for affordable housing;
- Promoting development of mixed-income housing; and
- Emphasizing rehabilitation in soft markets and new construction in tight markets.

Reaching Extremely Low-Income Renters Who Are the Population Most in Need

The LIHTC program tends to serve the least worst off among low-income renters, those with income ranging from 30 to 60 percent of each market's Area Median family Income (AMI). The program tends not to serve the poorest population, those with income from 0 to 30 percent of AMI, because the LIHTC rents are too high to be unaffordable for them. Yet, in most markets across the Nation, the renters in the 30 to 60 percent of AMI enjoy more than ample numbers of rental units, while renters in the 0 to 30 percent of AMI face shortages.

S. 548 includes income averaging which is a step in the right direction toward serving the poorer renter households. Income averaging will permit property managers to admit households with incomes up to 80 percent of AMI to offset admission of households with lower incomes, as long as the average income of all households does not exceed 60 percent of AMI. However, this mechanism will not reach very far down the income spectrum. S. 548 also contains a provision to give greater credit amounts to developments serving the 0 to 30 percent of AMI population. Again, this is a step in the right direction, but the units will continue to have flat rents. If the LIHTC developments are to serve the extremely low-income renters households without creating high housing cost burdens, the integration of a voucher approach is needed.

Housing credit agencies should have the capacity to exchange some portion of their LIHTC authority for housing vouchers for renter households who are extremely low-income (below 30 percent of AMI). These vouchers could be attached to a portion of the units in the LIHTC developments. This would permit the LIHTC developments to serve the extremely low-income households who could not otherwise afford to live in a LIHTC development. With the voucher format, the tenant would pay 30 percent of income toward the cost of the housing, rather than a flat rent. The voucher would pay the portion between the tenant's contribution and the rent on the unit, eliminating high housing cost burden in these units.

A very similar arrangement now exists with Public Housing Authorities (PHAs) who operate the Housing Choice Voucher (HCV) program. PHAs can convert up to 20 percent of its voucher authority into project-based vouchers. This procedure is helping developers include units that serve extremely low-income households in mixed-income developments. The LIHTC program would benefit from a similar provision incentivizing the generation of mixed-income developments that provide a portion of units for extremely low-income households.

Promote Mixed-Income Developments

Serving a poorer renter population, those with income below 30 percent of AMI, is only one of the needed reforms. These households are best served of housed in mixed-income developments. Developments that are entirely occupied by extremely low-income households tends to exacerbate the problems of concentrated poverty. Unfortunately, the LIHTC program does not foster mixed-income housing as 76 percent of all LIHTC developments are occupied entirely by low-income households. Fewer than 3 percent of developments are configured with market-rate units comprising more than one-half of all units.

Where market conditions permit mixed-income housing to be successful, the LIHTC program should promote this form of housing. The program now sets minimums on the percentages of low-income units in the development. To obtain any credits, the development must have at least 20 percent of units designated for households with income no higher than 50 percent of AMI or at least 40 percent of units designated for households with income no higher than 60 percent of AMI. Instead of these minimums, the program should set maximums such as no more than 20 percent of units would be for extremely low-income households and no more than an additional 20 percent of units would be for very low-income households with the remainder for moderate- and middle-income households.

Unfortunately, mixed-income housing will not work in all marketplaces. Middle-income households often cannot be attracted to distressed neighborhoods with high concentrations of poverty. Where rigorous market analysis establishes that mixed-income housing cannot be successfully marketed but that a LIHTC development would contribute to neighborhood revitalization, exceptions could be made. State housing finance agencies should be required to perform this market analysis, and HUD should provide oversight to ensure that the market analysis is rigorous.

Better Market Analysis So That the Right Type of LIHTC Is Developed in Each Market

The LIHTC program also needs tools to ensure that it is adding new units only where there is a shortage of units and rehabilitating units where there is no shortage.

As currently structured, the LIHTC program gives more lucrative 9 percent tax credits to new construction projects and less lucrative 4 percent tax credits to rehabilitation projects. This arrangement encourages developers to pursue new construction, independent of the type of construction appropriate to a market.

Most rental markets in the Nation have normal to high rental vacancy rates indicating no need for additional units through new construction. A minority of rental markets are tight with low vacancy rates. The LIHTC program should be restructured to reflect this condition. Rehabilitation should receive the 9 percent tax credits, and new construction would receive the 4 percent tax credits. This would shift the emphasis of the program from building new units to preserving the stock of older housing units. New construction should receive the 9 percent credits only where local market conditions indicate that the market has a very low vacancy rate or where the new construction units replace a larger number of deteriorated units demolished as part of a redevelopment plan.

State housing finance agencies should be required to perform rigorous market analysis to determine whether the use of 9 percent credits for new construction is appropriate. Oversight is needed to ensure that this market analysis is performed properly, and the U.S. Department of Housing and Urban Development is well-equipped to take on this role.

QUESTION SUBMITTED BY HON. MICHAEL F. BENNET

Question. I am interested in the research you've done on the extent to which housing policies, including vouchers, can help low-income families move closer to opportunity or, on the other hand, further socioeconomic and racial segregation.

Could you comment on what the most effective steps would be to reform our current housing policies to better help more low-income families live in places with access to opportunity?

Answer. The Federal Government has two rental assistance programs that are actively placing low-income households in new locations, the LIHTC program and the Housing Choice Voucher (HCV). Neither program strongly promotes movement to high-opportunity neighborhoods.

The HCV program only minimally promotes the notion of helping assisted households locate in high-opportunity neighborhoods through a provision of the technique used to monitor the performance of the administering Public Housing Authority.

The LIHTC program does not mandate that States give priority to developments located in neighborhoods offering high levels of opportunity. A few States have taken steps in this direction, but the process in not widespread.

For either the LIHTC program or the HCV program, the criteria used to identify high-opportunity neighborhoods should be locally defined. The research agrees that these neighborhoods should have low concentrations of poverty, low exposure to crime, high-performing schools, and access to gainful employment. Beyond these, the research has yet to identify criteria that can be applied universally. It appears that each metropolitan area will need to adopt its own criteria appropriate to individual markets. For example, access to public transit may be an important issue in some markets but not in others.

The HCV could be modified to mandate that a portion of vouchers be set aside for households who would be willing to accept the voucher on the condition that it be used only in a high-opportunity neighborhood.

The LIHTC program could be modified to mandate that States give priority to developments located in high-opportunity neighborhoods.

Program administrators should engage in opportunity mapping to identify, at the metropolitan level, high-opportunity neighborhoods as targets for voucher households or for tax credit units. The U.S. Department of Housing and Urban Development is especially skilled in this type of work and should be charged with overseeing the opportunity mapping process.

PREPARED STATEMENT OF HON. KATHERINE M. O'REGAN, PH.D., PROFESSOR OF PUBLIC POLICY AND PLANNING, ROBERT F. WAGNER GRADUATE SCHOOL, AND FACULTY DIRECTOR, FURMAN CENTER FOR REAL ESTATE AND URBAN POLICY, NEW YORK UNIVERSITY

Chairman Hatch, Ranking Member Wyden, and members of the committee, thank you for inviting me to appear today to discuss America's affordable housing crisis, challenges and solutions. I am speaking today from my perspective as a researcher, particularly on affordable housing policy, and from my experience at the Department of Housing and Urban Development, where I chaired the cross-agency Rental Policy Working Group (RPWG) which specifically focused on alignment of Federal rental programs and rental affordability.

AMERICAN'S AFFORDABLE HOUSING CRISIS

As has been reported widely and frequently in the press, and documented well by the researchers at Harvard's Joint Center, the Furman Center and many others, we have a housing affordability crisis in this country that is not going away. Let me start with just some facts.

Housing Cost Burdens Are Extremely High, Particularly for Renters

Using the affordability standard of spending no more than 30 percent of income on housing, in 2015 nearly 39 million households were "cost-burdened."[1] This is about a third of all households in America. And renters are much more likely to face cost burdens. Nearly half (48.3 percent) of all renters were cost burdened in 2015. More than a quarter (25.6 percent) face severe cost burdens, spending at least half of their income on housing.

These Rates Remain Far Above Pre-Housing Crisis Levels

While rent cost burdens have declined slightly since their peak in 2011, they remain considerably above pre-housing crisis levels. Focusing on those most burdened, 11.1 million renter households were severely cost burdened in 2015, nearly 4 million more than in 2001.

Affordability Challenges Are Widespread—Beyond Highest Cost Cities and Lowest Income Households

Affordability issues are not limited to highest-cost markets or a handful of States. With more than 30 percent of its renters experiencing severe cost burdens, Augusta, GA is among the 10 metropolitan areas with the highest rates of severe burdens for renters, for example.[2] While Florida, California and Hawaii had the highest shares of renters facing cost burdens, at least 37% of renter households in every State across the Nation were cost burdened in 2014.[3] High levels of cost burdens are also not confined to larger metropolitan areas. Almost 12 million households living outside the top 100 metropolitan areas are cost burdened, about half of whom are severely burdened.[4]

The sharpest growth in cost-burdened shares over the past decade and a half has been among middle-income households: burdened households within the middle quintile of the income distribution increased from 13 percent in 2001 to 25 percent in 2014.[5]

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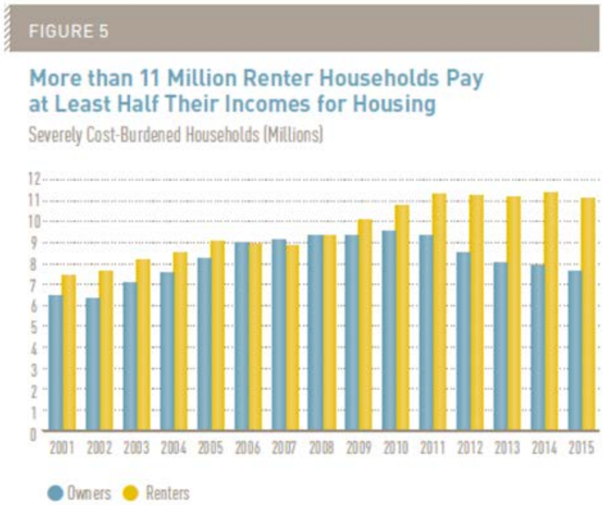
[1] Joint Center for Housing Studies. *The State of the Nation's Housing 2017.*
[2] Joint Center for Housing Studies, *The State of the Nation's Housing 2017.*
[3] Joint Center for Housing Studies. *Rental Housing Affordability 2015,* Appendix Tables and Additional web-only Tables, A–5.
[4] Smaller metro and non-metro areas. Joint Center for Housing Studies, *The State of the Nation's Housing 2017.*
[5] Joint Center for Housing Studies. *Rental Housing Affordability 2015.*



Source: Joint Center for Housing Studies, The State of the Nation's Housing 2017.

Looking specifically at cost burdens for renters by their income levels, in 2015:[6]

- For renter households with incomes below $15,000—comparable to full-time work at the Federal minimum wage—more than 80 percent were cost-burdened in 2015, with 70 percent facing severe cost burdens (spending more than half of income on housing).
- Sixty-four percent of renters with incomes between $15,000 and $30,000 were cost-burdened in 2015, 32 percent severely so.
- Over 40 percent of renters earning between $30,000 and $45,000 were cost-burdened in 2015.

Housing Supply Is Not Keeping Up With Demand

The country has experienced 7 consecutive years of growth in new construction, with 1.17 million housing units added to the national stock in 2016.[7] Even with this, construction is well below the historical annual rates of 1.4 to 1.5 million experienced during the 1980s and 1990s. Housing completions in the last 10 years are lower than any other 10-year period since the late 1970s.

Despite the gains in multifamily construction, rental markets remain extremely tight. Based on the Housing Vacancy survey, the Joint Center reports that rental vacancy rates continued to decline for the 7th year in a row.[8] In 2016, the rental vacancy rate fell to its lowest level in 30 years, 6.9 percent. Throughout the country, rent increases continue to far exceed inflation.

Meanwhile, over the past 15 years, there has been a shift in the rental stock toward the higher end. Nearly half of the 100 largest metropolitan areas reported absolute declines in the number of low rent units, even as their housing stocks increased.[9]

CONSEQUENCES OF HIGH HOUSING COSTS

There are obvious reasons to be concerned about the escalating costs of housing and the myriad of ways it affects people. Households spending large portions, even half or more of their incomes on housing, face difficult tradeoffs in how to meet their basic needs with what remains. For example, severely cost-burdened families with

[6] Joint Center for Housing Studies, *The State of the Nation's Housing 2017.* Chapter 7—Appendix Tables.
[7] Joint Center for Housing Studies, *The State of the Nation's Housing 2017.*
[8] Joint Center for Housing Studies, *The State of the Nation's Housing 2017.*
[9] Joint Center for Housing Studies, *The State of the Nation's Housing 2017.*

children who are in the bottom quartile of income spend 75 percent less on health care than non-burdened families in the same income quartile. Low-income and severely burdened seniors also cut back drastically on health care, spending 60 percent less than other low-income seniors.

High housing costs affect where people live, and may constrain families with children to neighborhoods and locations that do not support healthy child development, or upward economic mobility.

There may also be aggregate consequences if people are priced out of a high cost but highly productive markets, and choose to live in another area altogether. This affects the wages of that worker, and overall productivity in the Nation. Recent work by Berkeley economists estimates that had higher housing costs not inhibited the movement of workers and capital over the past four decades, national output would have been 10 percent higher in 2009.[10] Higher cost housing may be a greater obstacle for low-wage earners, exacerbating inequality and locking in economic differences across States.[11] The differential mobility also may have very long term effects on inequality, because many of the areas to which more highly educated workers may move have higher levels of intergenerational mobility than the areas in which less educated workers remain.[12]

THE FEDERAL ROLE: LOW-INCOME HOUSING TAX CREDIT

In terms of Federal response, Tax Policy plays a key role in housing markets. For affordable rental housing, this is primarily through the Low-Income Housing Tax Credit (LIHTC), the largest source of Federal financing for the private production and rehabilitation of affordable rental housing in the country.[13] I will focus my policy comments on LIHTC.

REFORMING AND STREAMLINING LIHTC

We now have more than 30 years of LIHTC experience to inform reforms—to increase the credit's flexibility and feasibility in a broader set of market conditions, to streamline, and to more effectively meet key policy goals. I would like to highlight three areas for improvement that are also part of S. 548 (the Affordable Housing Credit Improvement Act of 2017).

(1) Working in a Broader Set of Markets, Across a Broader Set of Incomes

LIHTC's Federal income and associated rent limits are tied to either 50 or 60 percent of area median income during the application process. Since 2000, States are to prioritize developments reaching lowest income tenants, and indeed, nearly half (47.5 percent) of LIHTC tenants have incomes *below* 30 percent of Area Median Income (AMI), and 58 percent have annual incomes below $20,000.[14] Serving such households with extremely low incomes (ELI) generally requires some form of additional rental assistance, such as project-based or tenant-based vouchers, or other development-level subsidies. Without those additional subsidies, reaching lowest income households is not economically feasible in most markets. Yet those additional subsidies are in decreasing supply, may not be within the control of the HFA or developer, and even if available require coordination and layering across funding streams.

Income Averaging (section 201) can help address these challenges as well as improve economic feasibility in different market settings.

Income averaging permits developments to employ an "average income" cap of 60 percent of AMI, with no household's income exceeding 80 percent of AMI. Rents set for 80 percent of AMI can be used to offset the lower rents for those at 30 (or 40) percent of AMI. This means a broader set of incomes can be served in a development, where the additional resources needed to reach lower income households comes from within the finances of the development itself. This "cross-subsidy" will be useful in high-cost markets, as well as for developments that are part of mixed-

[10] Hsieh, C., and Moretti, E. (2017). "Housing Constraints and Spatial Misallocation" (Working Paper). Berkeley, CA: National Bureau of Economic Research (NBER).
[11] Ganong, P., and Shoag, D. (2015). "Why Has Regional Income Convergence in the U.S. Declined?" (Working Paper). Cambridge, MA: Harvard Kennedy School.
[12] Schleicher, D. (2017). "Stuck! The Law and Economics of Residential Stability." *Yale Law Journal,* 127 (forthcoming).
[13] *https://www.huduser.gov/portal/datasets/lihtc.html.*
[14] "Understanding Whom the LIHTC Program Serves: Data on Tenants in LIHTC Units as of December 31, 2014. HUD USER." 2017. Accessed April 19. *https://www.huduser.gov/portal/publications/LIHTCTenantReport-2014.html.*

income community revitalization plans. It also addresses some of the issues in rural markets, where it may be necessary to serve a broader set of income ranges to be economically feasible. This greater flexibility is one of the most important LIHTC reforms.

Permitting States to *increase the maximum basis boost for serving ELI tenants (section 309)* adds a similar flexibility in terms of identifying resources within LIHTC for reaching lowest income households, avoiding additional layering of financing and the associated complexities. Finally, *broadening the definition of Difficult Development Areas (DDAs, section 402) to automatically include Indian areas* (along with the increased DDA cap, section 311) also enable the credit to work in a different, high need environment that it has historically underserved.

(2) Achieving Locational Goals

Over time and in practice, at least two (potentially conflicting) locational goals have emerged. On the one hand, there is a desire to avoid locating subsidized housing in neighborhoods in which poverty rates are already high, as this may further concentrate poverty. An additional concern is that high poverty neighborhoods may lack conditions conducive to self-sufficiency and economic mobility. Recent work by Raj Chetty and his co-authors, looking at the adult outcomes for children in assisted housing affirms that neighborhoods matter; children provided access to lower poverty neighborhoods were more likely to go to college and had higher earnings as adults.[15]

On the other hand, the desire to preserve existing affordable housing might drive investments to higher poverty neighborhood, and it is argued that such investments might spur broader community revitalization. This community reinvestment goal was made explicit in 2000, when the Community Renewal Tax Relief Act of 2000 required States to give preference to applications for LIHTC developments in area of lower income/higher poverty (Qualified Census Tracts or QCTs) with concerted community revitalization plans. Recent research provides compelling evidence that LIHTC developments in low-income neighborhoods do indeed have positive effects on the surrounding neighborhood, increasing property values, lowering crime, and attracting a more racially and economically diverse population.[16]

How States are to balance these competing goals remains a live debate. To achieve either locational goal, however—siting LIHTC in higher income/higher opportunity neighborhoods or contributing to neighborhood improvement through LIHTC investments, requires two reforms contained in S. 548.

In terms of accessing higher income neighborhoods, section 308 would *prohibit local approval and contribution requirements.* Beyond the Federal requirement that agencies provide notice to local government and a reasonable opportunity to comment on planned LIHTC developments,[17] some States also require proof of local support or provide other competitive points for such support. Such local approvals can, in essence, give jurisdictions the ability to veto developments. Considerable anecdotal evidence from developers and States suggest such "veto power" creates sizable location barriers in some States.

In terms of prioritizing developments in QCTs with concerted community revitalization plans, no guidance has been provided on who is to define what constitutes such a plan. In the absence of clarity, some States have provided the same prioritization to all developments proposed in QCTs, regardless of evidence of a plan. Clarification that *States have the authority to determine the definition of community revitalization plan (section 307)* would encourage States to employ prioritization that is consistent with Federal intent.

Preservation of Existing Affordable Housing

LIHTC is also used for the preservation of existing affordable housing, primarily through the so-called 4-percent credit. Preserving existing affordable housing is a key (and potentially cost-effective) strategy for narrowing the gap between demand and supply. Due to how the credit formula is calculated, its value actually fluctuates, adding uncertainty to credit deals. While a permanent minimum has been

[15] Chetty, R., Hendren, N., and Katz, L.F. (2016). "The Effects of Exposure to Better Neighborhoods on Children: New Evidence From the Moving to Opportunity Experiment." *American Economic Review,* 106(4), 855–902.

[16] Diamond, R. and McQuade, T. 2016. *Who Wants Affordable Housing in Their Backyard? An Equilibrium Analysis of Low-Income Property Developments.*

[17] 26 U.S.C. § 42(m)(1)(A)(ii).

established for the 9-percent credit,[18] *section 301 would establish a permanent minimum for the 4-percent credit.* Along with *modifying building repurchase rights (section 303),* this would improve the ability of the tax credit to be used for preserving existing affordable housing.

Additional Reform

Housing markets and needs vary greatly across jurisdictions and States. LIHTC is a Federal credit, but implemented by States to permit tailoring to local conditions. It is possible to add additional flexibility to the credit that could improve cost-effectiveness by permitting a portion of the value of the credits, or of any credit expansion, to finance State (HFA)-issued vouchers. Perhaps modeled on the Tax Credit Assistance Program (TCAP)[19] in which States could apply to provide grants in lieu of credits, the funding in this case would support a set of State-issued vouchers, likely time limited to match the timing of the funding. For those markets in which there is an adequate supply of quality housing across a range of price points, it may be more cost effective to permit States to utilize tenant-based vouchers.

LIHTC RESOURCES

Finally, I want to end by making a point about the level of resources for LIHTC. Due to the nature of how investors in LIHTC properties receive tax benefits—through both the credit and through losses, any decrease in corporate tax rates also lowers the amount of equity raised by the credit. LIHTC funding is predicted to decline by up to 17 percent under expected decreases in the corporate tax rate if per-capita allocations are not increased to keep pace.[20] Uncertainty over future corporate rates has already led to delays in deal closing and decreases in the price investors are willing to pay for the credit.[21]

This means failure to increase the per-capita allocation is equivalent to cutting LIHTC resources relative to its funding in recent years. This also means that *some amount of increase in the per-capita allocation is budget neutral relative to past years.* Given the breadth and depth of affordability issues in the country, now does not seem a time to withdraw Federal resources for affordable housing, particularly for LIHTC.

It is, however, an opportune time to make substantive improvements in LIHTC, making it a more effective and efficient program as the Nation grapples with a serious and persistent rental affordability crisis.

QUESTIONS SUBMITTED FOR THE RECORD TO HON. KATHERINE M. O'REGAN, PH.D.

QUESTION SUBMITTED BY HON. ORRIN G. HATCH

Question. Are there State and local issues we should consider, or at least keep in mind, such as zoning requirements and land use regulations, that are working against us in that they make housing artificially more expensive or otherwise limit its availability?

Are there ways we can and should account for that, such as by applying certain requirements to Federal incentives for affordable housing?

Answer. Local zoning requirements and regulations provide a number of benefits to communities, including increased health and safety for residents. But local zoning and regulatory constraints play a significant role in impeding housing production[1] and increase the costs of housing.[2] There is also growing evidence that the prevalence and intensity of land use regulations have increased over time, as housing affordability declines.[3]

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[18] Protecting Americans from Tax Hikes Act of 2015 (PATH).
[19] The American Recovery and Reinvestment Act of 2009.
[20] *https://www.novoco.com/notes-from-novogradac/how-congress-could-offset-effects-affordable-housing-production-reduced-corporate-rate.*
[21] Capps, Kriston. 2017. "Tax Reform Hasn't Started Yet, but Affordable Housing Is Already Taking a Hit." *CityLab*. Accessed May 1. *http://www.citylab.com/housing/2017/01/uncertainty-over-tax-reform-is-already-hurting-affordable-housing/514235/.*
[1] Glaeser, Gyourko, and Saks, 2005; Glaeser and Ward, 2009; Malpezzi, 1996; Quigley and Raphael, 2005; Saks 2008.
[2] Glaeser and Gyourko, 2003; Gyourko and Molloy, 2015.
[3] Furman, 2015; Gyourko, Saiz, and Summers, 2008; Mullen, 2015.

To the extent that land use regulations restrict the supply of housing and raise prices, they also make it more difficult for workers to move to the cities with more productive businesses, potentially contributing to slower productivity growth and increased economic inequality.[4]

While zoning and land use restrictions are locally determined, the effect of their use on housing costs is felt beyond the borders of local jurisdictions and could be addressed by higher levels of government.

The Federal Government could provide incentives directly to localities specifically to decrease regulatory barriers through a newly created competitive grant program or similar vehicle.

The Obama administration, for example, proposed $300 million in competitive grant funds for localities and regional coalitions that embrace reforms to zoning and land use regulations that create a "more elastic and diverse" supply of housing (HUD, Local Housing Policy Grants).[5] The proposal would have allowed local governments to use the funding to support infrastructure expansion or any activities that would facilitate the regulatory reforms, such as market analyses and assistance with identifying reform options.

To add some specifics, any such competitive grant program might:

- Offer technical assistance and funding to encourage local building authorities and departments to redesign and simplify their permitting systems. To become eligible for funds, localities might, for example, commit to promising approvals within a certain time window, or adopt procedural reforms to help streamline the process, such as establishing a single, standard, application for all needed permits, combining public hearings, or creating an on-line application and tracking system for permit requests.[6]
- Encourage localities and/or regional coalitions to adopt more relaxed land use regulations, such as upzoning certain areas to allow for more residential density, or perhaps removing restrictions on multifamily housing development. Similar to the Massachusetts Chapter 40R law, the program might also require that some minimum percentage of the additional units built be set aside as affordable to low-income households. In this case, incentive funds could be used to offset the development costs of those units.
- Finally, the Federal Government might issue a model zoning code (or a set of zoning provisions to allow for more flexibility), which localities could adopt in order to be automatically eligible for these funds.[7]

Alternatively, or in addition, the Federal Government might include incentives in existing funding streams. Those funding sources need not be limited to housing programs per se.

For example, the Department of Transportation (DOT), which already offers competitive grants to State and local governments for capital investments in transit, is a natural source of support. Indeed, the DOT's New Starts program already gives priority to projects built in areas with high population density and relatively high shares of affordable housing. Specifically, the program regulations require that in rating alternative proposals, Federal officials must consider the population density around proposed stations, and the ratio of the proportion of "legally binding affordability restricted" housing within a half mile of the proposed station to the proportion of "legally binding, affordability restricted" housing in the counties through which the route travels. These criteria could be expanded to cover population density and affordable housing in a jurisdiction as a whole, or measures to reform local zoning, and the criteria could be given more weight in selection. Additional points could be granted to applications that involve regional coalitions that aim to collectively permit more building.

Finally, a particularly promising approach is for the **Federal Government to provide incentives to States which have much greater direct authority over local zoning powers.** While the degree of local autonomy varies across States, it has long been established that local governments are ultimately "creatures of the

[4] Hsieh and Moretti, 2017; Ganong and Shoag 2015.
[5] The HUD proposal requires matching funds from State, local, or private sources, presumably to indicate serious commitment on the part of applicants.
[6] Massachusetts Association of Regional Planning Agencies, 2007.
[7] There has been some exploration of the feasibility of such model codes. *See* APA (1996) for a set of useful articles.

State."[8] Thus, even in "home rule" States where local governments have relatively high levels of autonomy, State legislatures have considerable authority over what local governments can and cannot do. As cities derive their very power to zone from States' zoning enabling acts, the latter's authority over the former very much extends to the ability to condition, restrict, or otherwise alter their land use power.

There are numerous examples of State actions that could be encouraged. For example:

- Massachusetts Chapters 40R and 40S tie State aid of some form to local construction in higher demand areas.
- A bill is working its way through the Massachusetts legislature to require every jurisdiction to include at least one district that allows MF housing construction as of right.[9]
- About half of States require comprehensive plans, which could be broadened. Five States require affordable housing as part of that planning.[10] Minimum parking restrictions, which drive up the cost of housing, could be reduced or eliminated by States (though it is unclear if any have).

The Federal Government could offer a pool of funds to States that adopt measures to check local zoning or incentivize residential development in localities, such as those highlighted above. Such State incentive programs might arguably be more effective than direct incentives to localities, given the greater political distance States have from homeowners concerned about growth and development in their communities. The scale of the potential funds to States is enormous. Consider that the Federal Government granted $51 billion to States in highway funds in 2014, which amounted to about 25 percent of spending on highways and transit.[11] While State highway funds are allocated through a statutory formula (*see* 23 U.S.C. § 104), Congress could potentially alter the formula and set aside some amount to be allocated through competitive grants. Alternatively, Congress could allocate additional funds that could be allocated through a competitive process that would reward States that enact laws to check local zoning or incentivize localities to allow greater density. Finally, it could add checks on local zoning as a condition or a criterion for existing competitive funding for capital investment (about $2.3 billion per year) that goes to States and localities.[12]

QUESTIONS SUBMITTED BY HON. ROBERT P. CASEY, JR.

HIGH HOUSING COSTS AND LACK OF ACCESS TO AFFORDABLE HOUSING

Question. I know you touched on this somewhat in your testimony, but can you elaborate on how high housing costs and lack of access to affordable housing can negatively impact families, seniors, worker wages, economic mobility and access to health care for children? Can you discuss how the Low Income Housing Tax Credit has and can be used to mitigate those outcomes?

Answer. There are (at least) three channels through which the high cost of housing negatively impacts families and individuals: by decreasing resources for other crucial spending; by lowering the quality of housing consumed; and by lowering the quality of the neighborhoods the selected housing is in.

Cost of Housing

The high cost of housing results in households spending large portions of their incomes on housing. More than a quarter of renters in the United States are spending

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[8] Most States follow the judicial rule of interpretation embodied by "Dillon's Rule." Even in States that do not, John Dillon's deeper argument that cities only have the powers that States give them (even if a State decides that a city has expansive powers that cannot be limited by the State except through State constitutional amendment) has been widely accepted. *See* David J. Barron, "Reclaiming Home Rule," 116 *Harv. L. Rev.* 2255 (2003); Gerald E. Frug, "The City as a Legal Concept," 93 *Harv. L. Rev.* 1057 (1980).

[9] *https://malegislature.gov/Bills/189/House/H4140/*.

[10] Pendall paper provided summary of existing State laws, *http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/rr07-11_pendall.pdf*.

[11] *http://www.cbo.gov/sites/default/files/cbofiles/attachments/44434-HighwayTrustFund Testimony.pdf* and *http://www.pewtrusts.org/en/research-and-analysis/analysis/2015/02/24/funding-challenges-in-highway-and-transit-a-federal-state-local-analysis*.

[12] *https://www.transit.dot.gov/funding/grant-programs/capital-investments/about-program*.

half or more of their income on their housing,[13] facing difficult tradeoffs in how to meet their basic needs with what remains. This results in cutting back on food, particularly nutritional food, and medical care.

For example,

- Severely cost-burdened families with children who are in the bottom quartile of income spend *40 percent less on food* and *75 percent less on health care* than non-burdened families in the same income quartile.
- Low-income and severely burdened seniors also cut back drastically on health care, spending 60 percent less than other low-income seniors.[14]
- The stresses associated with living in unaffordable housing could also undermine mental health.

Lack of access to affordable housing also means households face difficult tradeoffs and limited options in the housing they do get to live in. In particular, households are more likely to end up in lower quality housing and in neighborhoods that do not support the health, well-being, and economic mobility of residents.

Housing Quality

In terms of housing quality, there is evidence of negative effects on both health and education from living in low quality or crowded housing. In particular, the literature suggests:[15]

- Substandard housing puts residents at greater risk for exposure to lead paint and other toxins, and to injuries.
- The health benefits of living in structurally sound homes that are free of toxins are likely largest for children as they develop, and for seniors, who spend more of their time in their homes and are also most vulnerable to injuries and falls.
- To the extent that living in higher quality housing improves children's health, children will then be less likely to miss school or fall behind in classwork.
- Living in adequately sized housing, with space for studying, may also directly affect children's performance in school.[16]

Neighborhood Characteristics and Quality

Research finds that neighborhood characteristics are also quite important for the health and educational outcomes, the physical and social aspects of the neighborhood itself, and the schools, health care, and jobs that may be proximate to the neighborhood. Some relevant findings include:[17]

- Low air quality, car emissions, and proximity to hazardous waste increase negative health outcomes for children, such as increased children hospitalizations, premature births, low weight births, and infant mortality.[18]
- As documented rigorously in HUD's Moving to Opportunity Demonstration (MTO), getting to live in lower poverty, safer neighborhoods leads to significant reductions in obesity and diabetes among mothers, as well improvements in mental health, as least among adults and girls.[19]

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[13] Joint Center for Housing Studies. *The State of the Nation's Housing 2017.*

[14] Joint Center for Housing Studies. *The State of the Nation's Housing 2017.*

[15] For details, *see* summaries of the housing/health and housing/education nexus, *see* Center for Housing Policy, *http://docs.wixstatic.com/ugd/19cfbe_c1919d4c2bdf40929852291a57e5246f.pdf* and *http://www2.nhc.org/HSGandHealthLitRev_2015_final.pdf.*

[16] Leventhal and Newman (2010). "Housing and child development." *Children and Youth Services Review,* 32(9), 1165–1174.

[17] *Also see* summaries of the housing/health and housing/education nexus, *see* Center for Housing Policy *http://docs.wixstatic.com/ugd/19cfbe_c1919d4c2bdf40929852291a57e5246f.pdf* and *http://www2.nhc.org/HSGandHealthLitRev_2015_final.pdf.*

[18] Chay and Greenstone, "The Impact of Air Pollution on Infant Mortality: Evidence from Geographic Variation in Pollution Shocks Induced by a Recession," *Quarterly Journal of Economics* 118 (2003): 1121–67. Currie, Neidell, and Schmieder, "Air Pollution and Infant Health: Lessons from New Jersey," J*ournal of Health Economics* 28 (2009): 688–703. Currie, Greenstone, and Moretti, "Superfund Cleanups and Infant Health," Working Paper 16844 (National Bureau of Economic Research, Cambridge, MA, 2011). Currie and Walker, "Traffic Congestion and Infant Health: Evidence from E-ZPass, " Working Paper 15413 (National Bureau of Economic Research, Cambridge, MA, 2009).

[19] Ludwig et al., "Neighborhoods, Obesity, and Diabetes—a Randomized Social Experiment," *New England Journal of Medicine* 365 (2011): 1509–19, doi: 10.1056/NEJMsa1103216, *https://www.nejm.org/doi/pdf/10.1056/NEJMsa1103216.*

- Lack of safety in a neighborhood, particularly exposure to violent crime, has been shown to significantly undermine children's ability to focus and cognitive functioning.[20]
- Finally, as documented by more recent assessments of the adult outcomes of children in HUD's MTO, being raised in low poverty/safer neighborhoods increases the likelihood of going to college, quality of college attended, and earnings as an adult.[21]

Worker Productivity and Inequality

There may also be aggregate consequences if people are priced out of high cost but highly productive markets, and choose to live in another area altogether. This affects the wages of that worker, and overall productivity in the Nation.

- Work by Berkeley economists estimates that had higher housing costs not inhibited the movement of workers and capital over the past 4 decades, national output would have been 10 percent higher in 2009.[22]
- Higher cost housing may be a greater obstacle for low-wage earners, exacerbating inequality and locking in economic differences across States.[23]
- This differential mobility may also have very long term effects on inequality, because many of the areas to which more highly educated workers may move have higher levels of intergenerational mobility than the areas in which less educated workers remain.[24]

MITIGATING THESE NEGATIVE EFFECTS THROUGH THE LOW-INCOME HOUSING TAX CREDIT (LIHTC)

LIHTC can and does affect the three channels already mentioned: affordability of housing, its quality, and the associated neighborhoods. As the largest source of Federal funding for the production and rehabilitation for affordable rental housing in the United States, LIHTC plays a critical role in the provision of quality affordable housing, including the rehabilitation of potentially substandard housing. I will focus on a few key aspects here.

Housing Affordability

Nearly 3 million housing units have been placed in service through LIHTC as of 2015.[25] In terms of affordability, LIHTC's Federal income and associated rent limits are tied to either 50 or 60 percent of area median income. Broadly, this means the Federal limits would make LIHTC units affordable to households whose incomes were no greater than $28,258 to $33,910 in 2015. While there is great need for housing affordable to these low- and very low-income households,[26] households with extremely low incomes (30 percent of AMI or below) face the greatest affordability challenge. Since 2000, States are to prioritize developments reaching lowest income tenants, and indeed, nearly half (47.5 percent) of LIHTC tenants have incomes *below* 30 percent of Area Median Income (AMI), and 58 percent have annual incomes below $20,000.[27] Serving such households with extremely low incomes generally requires additional subsidy to be economically feasible. This is done with some form of additional rental assistance, such as project-based or tenant-based vouchers, or other development-level subsidies. This requires coordination and layering across funding streams.

There are several ways in which LIHTC could be modified to be more effective or efficient at reaching lowest income households, increasing its affordability for those most in need. Such as:

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[20] Patrick Sharkey, "Acute Effect," *http://www.pnas.org/content/pnas/107/26/11733.full.pdf;* Sharkey et al., "High Stakes," *https://www.sociologicalscience.com/download/volume%201/may(3)/high-stakes-in-the-classroom-high-stakes-on-the-street.pdf.*

[21] Chetty, Raj, Nathaniel Hendren, and Lawrence Katz. 2016. "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Project." American Economic Review 106 (4).

[22] Hsieh and Moretti. (2017). "Housing Constraints and Spatial Misallocation" (Working Paper). Berkeley, CA: National Bureau of Economic Research (NBER).

[23] Ganong and Shoag. (2015). "Why Has Regional Income Convergence in the U.S. Declined?" (Working Paper). Cambridge, MA: Harvard Kennedy School.

[24] Schleicher (2017). "Stuck! The Law and Economics of Residential Stability." *Yale Law Journal,* 127 (forthcoming).

[25] *https://www.huduser.gov/portal/datasets/lihtc.html.*

[26] HUD considers households with income at or below 50 percent of AMI as "very low income" and those with incomes between 50 and 80 percent of AMI as "low income."

[27] "Understanding Whom the LIHTC Program Serves: Data on Tenants in LIHTC Units as of December 31, 2014. HUD USER." 2017. Accessed April 19, *https://www.huduser.gov/portal/publications/LIHTCTenantReport-2014.html.*

- Income averaging (permitting an average income cap of 60 percent of AMI, with an overall income cap of 80 percent of AMI). The higher rents received for units set above 60 percent of AMI can provide the subsidy for units at 40 or 30 percent of AMI.
- Increase the maximum "basis boost" for developments targeting those with extremely low incomes.

The common theme here is for the additional subsidy needed to reach the lowest income households to come from within LIHTC or the development, and avoiding complicated and cumbersome layering of multiple funding streams.

An additional means of increasing affordability would be to permit a portion of the credits, or of any credit expansion, to finance State (HFA)-issued vouchers. For those markets in which there is an adequate supply of quality housing across a range of price points, it may be more cost effective to permit States to utilize tenant-based vouchers. This would permit States to either reach deeper down the income distribution or to serve a greater number of households, for any given amount of resources.

Neighborhood Quality

Studies show that Low-Income Housing Tax Credit (LIHTC) units are generally located in lower poverty neighborhoods than other forms of project-based, subsidized rental housing.[28] That said, LIHTC units are more likely to located in high poverty tracts than the rental stock overall, though research on most recently funded units shows some decline in the share of units in higher poverty tracts.[29]

There are two proposed LIHTC reforms that would improve locational outcomes, the first by improving the ability for developments to be built in higher opportunity neighborhoods, and the second by increasing the likelihood that neighborhoods around LIHTC properties improve after the development is constructed.

- Prohibiting local approval and contribution requirements. Some States require proof of local support or provide other competitive points for such support. Such local approvals can, in essence, give jurisdictions the ability to veto developments. Considerable anecdotal evidence from developers and States suggest such "veto power" creates sizable location barriers in some States, specifically for building in lower poverty, higher opportunity areas.
- Clarification that States have the authority to determine the definition of community revitalization plan. The Federal requirement that States prioritize developments in Qualified Census Tracts with concerted community revitalization plans is meant to foster the redevelopment of those neighborhoods. Yet, in the absence of any Federal guidance on what constitutes such a plan, some States have provided the same prioritization to all developments proposed in QCTs, regardless of evidence of a plan or whether that development is likely to contribute to neighborhood improvements.

Finally, there are numerous small "fixes" that have been proposed, that would ease the use of LIHTC with other funding streams, such as employing a uniform income eligibility for rural projects and a consistent definition of student status. Simplifying the use of LIHTC with other funding streams lowers the administrative costs of creating affordable housing.

Question. Can you discuss the importance of having stable housing, in addition to affordable housing, and how lack of stable and affordable housing may affect children and childhood development?

Answer. Housing affordability and stability are obviously quite linked, with instability being a fourth channel through which the high cost of housing can negatively affect families and children (see response above). Lack of affordability can lead to "reactive" moves, as families unable to make the rent need to quickly find alternative housing.[30] Such moves put families under great stress, don't allow for a careful housing search process, and may be poorly timed for the school year. Even absent actual moves, insecure housing tenure may cause both parents and children to

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[28] Ellen, O'Regan, and Voicu. (2009). "Siting, spillovers, and segregation: A reexamination of the Low Income Housing Tax Credit program," McClure (2006). "The low income housing tax credit program goes mainstream and moves to the suburbs." *Housing Policy Debate.*

[29] Ellen and Mertens. "Points for Place: Can State and Local Governments Steer Private Investments in Subsidized Housing to New Neighborhoods?" Working Paper.

[30] Deluca, Rosenblatt, and Wood. "Why Poor People Move (and Where They Go): Residential Mobility, Selection, and Stratification." Working Paper, *http://www.law.nyu.edu/sites/default/files/ECM_PRO_074751.pdf*

feel acute levels of stress, making it more difficult for children to focus on school and parents on their parenting.

Some key findings from the literature on housing stability and children:[31]

- Changing schools is associated with declines in education achievement, particularly if mobility is frequent or occurs during key developmental stages.[32]
- Frequent residential mobility, regardless of whether changing schools, also are associated with negative effects for students.[33] For example, poor children who move three or more times before turning six years old are more likely to demonstrate behavior and attention problems.[34]
- Residential instability among children and adolescents may negatively affect behavior and mental well-being, particularly for families with limited social connections or other key supports.[35]
- Families forced to move through formal or informal evictions report worsened health for the mothers and children.[36]

At the extreme, housing instability can result in homelessness. In this country, a person is most likely to spend a night in a homeless shelter, *when they are an infant, in their first year of life.*[37] A recently completed randomized trial, assessing the efficacy of three common homelessness interventions, provides perhaps some of the most rigorous and compelling evidence to date on how children are affected by housing instability that leads to homelessness.

HUD's Family Options Study followed more than 2,000 homeless families in 12 communities, for 3 years.[38] The top-line finding is that providing homeless families with access to long term housing subsidies significantly reduced all forms of housing instability, with greatly reduced emergency shelter stays, doubling up, and housing mobility. Stable, affordable housing outperformed all other interventions.

Perhaps as important, were the effects on *non-housing outcomes:*

- The offer of stable affordable housing—usually through a voucher, resulted in reductions in adult psychological distress, intimate partner violence, economic stress, school mobility, and food insecurity.
- There were also positive impacts in the child well-being domain, including reductions in behavior and sleep problems, and an increase is pro-social behavior.
- Within 20 months of random assignment, families assigned to receive the subsidy, experienced significant reductions in *three of the seven categories of Adverse Childhood Experiences (ACES).* These adverse experiences have been linked to negative health and mental health outcomes as adults.[39]

It is increasingly my view that as a country, we cannot make headway on breaking the intergenerational transmission of poverty without addressing the housing needs of families with young children. Housing is the foundation for healthy child development, through all four dimensions mentioned here. Without affordable, sta-

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[31] Section largely builds from: Center for Housing Policy, *http://docs.wixstatic.com/ugd/19cfbe_c1919d4c2bdf40929852291a57e5246f.pdf.*

[32] For example, *see* Grigg, "School Enrollment Changes and Student Achievement Growth: A Case Study in Educational Continuity," *Sociology of Education,* October 2012 (85): 4 388–404. Alexandra Beatty, Rapporteur; Committee on the Impact of Mobility and Change on the Lives of Young Children, Schools, and Neighborhoods, National Research Council and Institute of Medicine; "Student Mobility: Exploring the Impact of Frequent Moves on Achievement: Summary of a Workshop" (Washington, DC: The National Academies Press, 2012).

[33] Cohen and Wardrip, *Should I Stay or Should I Go? Exploring the Effects of Housing Instability and Mobility on Children* (Washington, DC: Center for Housing Policy, 2011); Scanlon and Devine, "Residential Mobility and Youth Well-Being: Research, Policy, and Practice Issues," *Journal of Sociology and Social Welfare* 28(1) (2001): 119–138; Vandivere, Hair, Theokas, Cleveland, McNamara, and Atienza, *How Housing Affects Child Well-Being* (Coral Gables, FL: Funders' Network for Smart Growth and Livable Communities, 2006).

[34] Ziol-Guest and McKenna, "Early Childhood Housing Instability and School Readiness," *Child Development* 85(1) (2014): 103–113.

[35] Leventhal and Newman. 2010. "Housing and Child Development." *Children and Youth Service Review* 32(9): 1165–1174.

[36] Desmond and Kimbro. 2015. "Eviction's Fallout: Housing, Hardship, and Health" *Social Forces,* Volume 94, Issue 1, September 1, 2015, pages 295–324, *https://doi.org/10.1093/sf/sov044.*

[37] *https://pdfs.semanticscholar.org/7764/698bc0817371fd7ae26c6a05d144654f86e2.pdf.*

[38] *https://www.huduser.gov/portal/sites/default/files/pdf/FamilyOptionsStudySummaryReport.pdf.*

[39] Centers for Disease Control, *Adverse Childhood Experiences Study, https://www.cdc.gov/violenceprevention/acestudy.*

ble, quality housing in neighborhoods that support child development and upward mobility, children born into low-income families will continue to face a steep uphill climb to escape poverty as adults.

Question. In your testimony, you mentioned that studies have shown children have better outcomes, higher earnings, and receive higher education when they live in low poverty neighborhoods. Can you elaborate on this research and how it may be used to inform Federal policymaking?

Answer. The recent work by Raj Chetty and his co-authors provides the best evidence to date on the role of a child's neighborhood in their adult outcomes.[40] The work builds from HUD's Moving to Opportunity Demonstration (MTO), in which families living in public housing were offered different forms of vouchers, one form that could only be used in low poverty neighborhoods. A key strength of this study is that it was a randomized trial; whether a family was offered a voucher that would more likely lead them to a low poverty neighborhood was random and not determined by the participants.

By linking data from the original study to IRS data, Chetty extended this work to look at the adult outcomes of the low-income children in the demonstration. The main finding is that young children in families offered vouchers more likely to get families to low poverty, safer neighborhoods did much better as adults than otherwise similar children. Specifically, they were more likely to go to college, to go to a higher quality college, and to earn more as adults. It is important to note that these positive effects were found for children who were 12 years old or younger at the time of the demonstration. There were no effects, or even negative effects, for children who were older at the time the voucher was offered. This may shed some light on the potentially negative effect of residential moves; older children may mainly experience the "down side" of a disruptive move, while having less time living in the low poverty neighborhoods, so less of the "up side."

This work highlights that Federal policy needs a heightened emphasis on the neighborhood context of families, particularly those with young children. Federal policy also needs to be cognizant of the disruptive effect of moves. Federal efforts need to focus on improving choices, including the choice to remain in one's community, among existing support networks.

Let me highlight two policy approaches where this evidence is particularly useful: improving neighborhood options for families with vouchers, and improving the neighborhoods where so many low income families lives.

IMPROVING NEIGHBORHOOD OPTIONS IN HUD'S HOUSING CHOICE VOUCHER PROGRAM

More than 2 million children live in families receiving HUD rental assistance through tenant-based vouchers.[41] Those vouchers should provide households with relief on housing affordability, and the ability to choose across better neighborhoods. Many believe the voucher program has been less successful on this second goal. For example, less than 13 percent of voucher households with children live in neighborhoods of low poverty (less than 10 percent of the population being poor).[42] In some jurisdictions, the share is much lower than this.

While many factors affect where families receiving a voucher ultimately live, one factor may be how HUD determines Fair Market Rents (FMRs), which bound allowable rental payments to landlords. HUD's Metropolitan-wide FMRs (set at the 40th percentile of rents in the metropolitan area) may not be sufficient in some markets to help voucher holders access high opportunity/high rent areas—and thus voucher holders end up highly concentrated in a few high poverty areas. Given the importance of neighborhood quality for a child's life outcomes, HUD determined it needed to consider alternatives to metropolitan-wide FMRs.

HUD initiated a Small Area Fair Market Rent (SAFMR) demonstration to test the effects of setting FMRs at the ZIP code level within a metropolitan area, rather than metropolitan-wide (in 2010 via court settlement in Dallas and in 5 PHAs in 2012).[43] This permits FMRs/payment standards to be *higher* in high rent/low poverty areas,

[40] Chetty, Hendren, and Katz. 2016. "The Effects of Exposure to Better Neighborhoods on Children: New Evidence From the Moving to Opportunity Project." *American Economic Review* 106(4).

[41] *https://www.cbpp.org/housing-choice-voucher-fact-sheets.*

[42] *https://www.cbpp.org/research/housing/realizing-the-housing-voucher-programs-potential-to-enable-families-to-move-to.*

[43] Cook County, IL; Mamaroneck, NY; Chattanooga, TN; Long Beach, CA; Laredo, TX.

and *lower* in low rent/high poverty areas. Early evidence from Dallas was quite promising—suggesting SAFMRs led to de-concentration to *lower poverty, lower crime* neighborhoods at essentially the *same cost per voucher* as using the 40th percentile metropolitan FMR.[44]

Based on that evidence, and two rounds of public comments, HUD issued a final SAFMR rule in November of 2016, mandating the use of SAFMRs in a limited number of metropolitan areas in which voucher households are disproportionately concentrated in high poverty census tracts.[45] Implemented in January of 2017, the rule would first affect FMRs announced in the fall of 2017.

Yet on August 15, 2017, HUD announced that it was suspending the mandatory SAFMR for at least 2 years.[46] HUD's letter to affected Public Housing Agencies noted several reasons for the delay, including an interim report on the demonstration.[47] The letter noted particular concern over potential increases in rent burdens and stated further analysis was warranted. However, concern over possible effects on household rent burdens were raised during the public comment period, and led HUD to include multiple tenant protections in the final SAFMR rule. Meaning, the final rule differs substantially from how SAFMRs were implemented in the demonstration sites, specifically in terms of protecting tenants from large increases in rent burden.

Interestingly, the interim report confirms key findings from the earlier research: using SAFMRs, voucher households were more likely to move to lower poverty, higher opportunity neighborhoods, at somewhat *lower* average voucher costs. The outcomes documented in the report are, of course complicated and quite varied. They do not, however, appear to contradict the key expectations HUD had when it finalized the SAFMR rule. It is unclear why HUD would provide a blanket 2-year delay for all newly-designated SAFMR areas, for one of the few policies proven to help voucher households reach better neighborhoods.

IMPROVING WHERE FAMILIES ALREADY LIVE AND LIHTC

Most low-income families do not have vouchers, and many families do not want to move from their communities in order to access decent schools and be safe at home. Reinvesting in the neighborhoods where families already live also needs to be part of the Federal approach. There are a variety of Federal programs meant to spur community redevelopment. Programs aimed at comprehensive community development, however, can be difficult to evaluate, due to numerous data and methodological challenges.

Recent research by Stanford economists has filled one important knowledge gap, specifically whether developing LIHTC in a neighborhood fosters—or hinders—neighborhood improvements.[48] Using extensive data on the property values of nearby homes before and after LIHTC housing is created, the authors provide compelling evidence that LIHTC developments in low-income neighborhoods do help revitalize those neighborhoods. Creating LIHTC developments in low-income neighborhoods increases property values by over 6%, lowers crime, and attracts a more racially and economically diverse population. The authors estimate that a LIHTC development in a low-income area "improves welfare by $23,000 per local homeowner and $6,500 per local renter, with aggregate welfare benefits to society of $115 million."

States and localities need the continued flexibility to use LIHTC as part of redevelopment strategies. Along with such flexibility should come more clarity in what constitutes a concerted community revitalization plan in order for a LIHTC application in a qualified census tract to qualify for additional basis boost.

QUESTION SUBMITTED BY HON. MICHAEL F. BENNET

Question. Reporters in places like Milwaukee have highlighted a troubling trend: some landlords set up Limited Liability Company—or LLC—structures to avoid pay-

[44] Collinson and Ganong, September 2014, "The Incidence of Housing Voucher Generosity," NBER.

[45] *https://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2016/HUDNo_16-173.*

[46] *https://www.housingonline.com/2017/08/23/hud-suspends-mandatory-implementation-small-area-fair-market-rents/.*

[47] *https://www.huduser.gov/portal/sites/default/files/pdf/SAFMR-Interim-Report.pdf.*

[48] *https://web.stanford.edu/~diamondr/LIHTC_spillovers.pdf.*

ing property taxes and fines, allowing them to abandon properties more easily. LLCs obscure landlords' personal information and assets, making it difficult to hold them accountable.

Are you aware of this practice? How widespread do you believe this LLC problem to be? What changes to the tax code or other policies might address this issue?

Relatedly, some landlords buy up cheap properties, "milk" them by charging rents until they deteriorate, and then abandon them. What can we do to deter this activity and instead incentivize long-term landlord investment in communities?

Answer. The ability of investors to hide their identity or assets behind Liability Corporations—or LLCs— makes it very difficult for local governments and community groups to track who is acquiring property. This limits the ability to detect trends that might warrant attention, or to deter inappropriate behavior by landlords. The extent of the problem likely varies by context and the LLC registration requirements of the State.

In New York City, for example, LLCs have been implicated by affordable housing advocates and the media in the "flipping" of rent-stabilized apartments to luxury apartments.[49] The inability to easily identify landlords accused of harassment tactics impedes policy efforts to support housing market functions. This includes identifying landlords who may be misusing the eviction process as part of harassment.

A starting point for deterring counter-productive behavior by landlords is more transparency in the corporate structure. According to a cross-country comparison of corporate transparency, the U.S. ranked below at least 28 other countries, with a score of 31 out of 100.[50] Some States within the U.S., however, scored much more highly. Washington State, for example, has adopted their own LLC registration requirements that greatly increase LLC transparency, and could provide a model for a Federal requirement.[51]

The Federal tax code could require that all LLCs provide and keep current the name and address of the founders, members, and managers of any LLC to the local government in any municipality in which they hold real property.

Prepared Statement of Grant Whitaker, President, National Council of State Housing Agencies

Mr. Chairman, Ranking Member Wyden, and members of the committee, thank you for this opportunity to testify on behalf of the National Council of State Housing Agencies (NCSHA) on our Nation's critical need for affordable housing, the roles the Low-Income Housing Tax Credit (Housing Credit) and tax-exempt private activity Housing Bonds (Housing Bonds) play in responding to that need, and how Congress can seize the opportunity of tax reform to further strengthen these programs.

I am Grant Whitaker, president and chief executive officer of the Utah Housing Corporation. I also have the privilege to serve as president of NCSHA, which is a nonprofit, nonpartisan, national organization created by the Nation's State Housing Finance Agencies (HFA) more than 40 years ago to coordinate and leverage their Federal advocacy efforts for affordable housing. In addition to NCSHA's advocacy work, the organization provides HFAs with education and training on the Housing Credit, Housing Bonds, and other Federal housing programs.

HFAs are governmental and quasi-governmental, nonprofit agencies that address the full spectrum of affordable housing need, from homelessness to homeownership. HFAs effectively employ the Housing Credit and Housing Bonds, entrusted by Congress to State administration, to advance their common public-purpose mission of providing affordable housing to the people of their jurisdictions who need it.

Thank you, Mr. Chairman, for your steadfast leadership in support of the Housing Credit and Housing Bonds over many years. I also want to thank Senator Maria Cantwell (D–WA), who too has been a true champion of these crucial housing programs and a tireless advocate for low-income households who need housing help. Together, you have introduced the most important housing legislation Congress has

[49] *https://patch.com/new-york/prospectheights/flippers-playbook-how-nyc-slumlords-terrorize-tenants-get-away-it.*

[50] *http://registries.opencorporates.com/.*

[51] *https://sunlightfoundation.com/2014/08/14/washington-a-better-practices-state-for-llc-transparency.*

considered in many years, S. 548, the Affordable Housing Credit Improvement Act. NCSHA strongly supports your bill, which would increase Housing Credit authority, facilitate Housing Credit development in challenging markets and for hard-to-reach populations, support the preservation of existing affordable housing, and simplify program requirements.

NCSHA also thanks committee Ranking Member Ron Wyden (D–OR) and committee members Dean Heller (R–NV), Michael Bennet (D–CO), Rob Portman (R–OH), and Johnny Isakson (R–GA) for their cosponsorship of this legislation. We urge all Senators to become cosponsors.

The Housing Credit has long enjoyed strong bipartisan, bicameral support, and this bill is no exception. Already, approximately one-third of the Senate has either cosponsored the Affordable Housing Credit Improvement Act or declared their intention to do so. Its House companion legislation, H.R. 1661, also enjoys significant bipartisan backing in that chamber, including cosponsorship by over half of the Ways and Means Committee, with near equal numbers of Republicans and Democrats.

In addition to strong support in Congress, more than 2,000 local, State, and regional organizations and businesses nationwide support this legislation as members of the A Call To Invest In Our Neighborhoods (ACTION) Campaign. NCSHA is proud to co-chair this important grassroots coalition, which advocates in support of protecting, expanding, and strengthening the Housing Credit.

Given this broad support, we urge the committee to include this important bill in any tax legislation it considers.

THE NEED FOR AFFORDABLE HOUSING IS GREAT AND GROWING

The need for affordable housing across the country has reached crisis proportions, and is growing substantially. Nearly half (48 percent) of renters in the United States pay an excessive share of their income for housing. The crisis is most acute for those earning the least. Of those renter households with annual incomes of $15,000 or less—approximately equivalent to working full-time at the minimum wage—83 percent pay more than 30 percent of their income for housing, and 70 percent devote more than half of their income to housing. This leaves little money left over for other critical necessities like food, transportation, childcare, health care, and utilities.

The housing crisis affects both homeowners and renters. For many low- and moderate-income borrowers, purchasing a home is by far their best opportunity to build wealth, yet these families face significant challenges as they seek to achieve homeownership. Even as the housing market strengthens, many creditworthy home buyers, especially first-time buyers, struggle to obtain mortgages they can afford. According to the most recent data from the National Association of REALTORS®, first-time home buyers accounted for only 33 percent of home purchases in May and 32 percent of home purchases in June, compared to the 40 percent historical average.

As more and more people turn to the rental market, they find a severe shortage of affordable homes. Those available to extremely low-income (ELI) households, those earning 30 percent or less of Area Median Income (AMI), are especially scarce. Nationwide, there are 11.4 million ELI renter households, but only 4 million rental homes affordable and available to them, leaving a gap of 7.4 million needed homes. The rental shortage is exacerbated as hundreds of thousands of new renter households enter the market each year, while the Nation loses countless affordable units from the housing stock due to conversion to market rate rentals or condominiums, demolition, or obsolescence.

The housing crisis impacts working families, seniors, people with disabilities, and so many more across the country—those living in high-cost cities, in suburban neighborhoods, and in rural communities. Coastal cities like New York, San Francisco, and Seattle are well known for their extreme housing costs.

But, I speak from experience when I say that low-income households in Utah face immense struggles to find affordable housing, too. Over 58,000 renter households living in Utah pay more than half of their income for housing. Those most in need are extremely low-income renters, for whom there is an estimated affordable rental housing shortage of over 38,000 units.

I know from my conversations with my colleagues at HFAs across the country that what we face in Utah is not unique. Every State confronts this challenge.

This crisis will only get worse unless we act. According to research by Harvard University's Joint Center for Housing Studies and Enterprise Community Partners, if current rent and income trends continue, the number of severely cost-burdened renters—those paying 50 percent or more of their income for rent—will reach 14.8 million nationwide by 2025. That is 25 percent more severely cost-burdened households than we have today.

While the Housing Credit and Housing Bond programs are extraordinarily successful, the resources devoted to them are woefully insufficient to meet the Nation's affordable housing needs of today, let alone those of tomorrow.

THE HOUSING CREDIT AND HOUSING BONDS: OUR NATION'S MOST EFFECTIVE RESPONSE TO THE AFFORDABLE RENTAL HOUSING CRISIS

The Housing Credit and Housing Bonds are the most important tools we have to address the affordable housing shortage. These programs are highly successful public-private partnerships that draw on State HFAs' sophisticated underwriting, asset management, and oversight capacity as well as private sector expertise and investment. Without question, the Housing Credit and Housing Bonds are the most effective means of targeting limited affordable housing resources to the people and places that need them, while transferring risk to private sector investors.

Since the Housing Credit's establishment in the Tax Reform Act of 1986, it has financed roughly 3 million affordable rental homes for low-income families, seniors, veterans, and those with special needs. Approximately 40 percent of these rental homes are financed with 4 percent Housing Credit authority, which is triggered by the use of multifamily Housing Bonds and therefore is not subject to the Housing Credit volume cap. These homes would not exist were it not for those bonds. In addition to the rental homes financed with both the 4 percent Credit and Housing Bonds, HFAs also finance affordable rental housing properties with multifamily Housing Bonds alone.

These programs transform lives by creating quality, affordable living environments that lift up families; help children thrive; support seniors, people with special needs, and veterans; and permanently house persons at risk of or experiencing homelessness. They contribute to community revitalization by inspiring business growth, infrastructure advances, transportation solutions, and much more.

State HFAs are proud, not only of the high quality, sustainable housing we help produce with the Housing Credit and Housing Bonds, but also of our strong program administration. We take very seriously our responsibility for program operation and oversight, as entrusted to States by Congress. We steadfastly enforce Federal program rules, developing statewide allocation plans with extensive public input; allocating to developments only the amount of Credit necessary to ensure their feasibility and long-term viability; serving only income-qualified households and the lowest income people we can possibly reach; ensuring the financial and physical health of the properties for the duration of their affordability periods through regular and thorough inspections; and reporting noncompliance to the IRS.

States often exceed Federal requirements, collaborating on the development through NCSHA of national recommended practices in Housing Credit administration that set very high standards, while preserving the genius of the program's devolved design that allows States to determine their highest and best use of Credit authority within broad and appropriate Federal mandates. Strong State administration has been cited by the U.S. Government Accountability Office in the past and in its most recent Housing Credit study on State administration released in 2016.

AFFORDABLE HOUSING SUCCESSES AND CHALLENGES IN UTAH

We have had significant success in Utah using the Housing Credit and Housing Bonds. I am pleased to say that, with these programs, we have made considerable progress in reducing our chronically homeless population. Just last week, my board voted to devote 30 percent of our 2018 Housing Credit authority to supportive housing projects that will move us closer to the goal of ending chronic homelessness in Utah.

We are particularly proud of projects such as the Kelly Benson Apartments, a supportive housing development for seniors in Salt Lake County. Many of its residents are formerly homeless veterans who have struggled with physical and mental health challenges and drug and alcohol addictions. This property serves seniors earning 35 percent of the AMI or less and offers supportive services to those who need extra help getting through the day or night. Resisted by the community at first, the project is now considered a neighborhood jewel.

But, we still have significant work ahead as we seek to tackle family homelessness and help the many other low-income households in our State who are housed, but pay more than they can afford for rent. The fact is we simply do not have enough resources to meet our affordable housing needs. In 2017, Utah Housing Corporation received 22 proposals for Housing Credit developments in our competitive 9 percent Housing Credit round, requesting a total of $14,631,181. But, with our limited Housing Credit authority, we were able to fund just 12 of them.

AFFORDABLE HOUSING IS A VITAL PART OF A PRO-GROWTH TAX CODE

Congress is embarking upon one of the most significant and challenging endeavors of recent decades—reform of the Federal tax code to create a tax system that better promotes economic growth. As it pursues this goal, we urge Congress to consider how it can strengthen our Nation's housing infrastructure, as housing is the foundation for an economically vibrant country.

The use of the tax code to provide affordable housing—both through the production and preservation of affordable rental properties with the Housing Credit and multifamily Housing Bonds and through the provision of lower cost mortgages for working families with single-family Housing Bonds (under the Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs)—has been one of the singular successes of the current system.

The housing stability that can be achieved through the Housing Credit and Housing Bonds creates better health outcomes, improves children's school performance, and can help low-income individuals gain employment and keep their jobs. And, the production and preservation of affordable housing helps drive economic growth, through job creation and the generation of tax revenues at all levels of government.

Sadly, the affordable housing crisis we face now is exacting an economic toll on our Nation. Homelessness and hypermobility suffered by unassisted low-income families have dire consequences for children's educational attainment. Numerous studies show that children who move frequently—as they often must without stable housing—are more likely to drop out of school, repeat grades, perform poorly, or have numerous school absences compared to those with stable housing. The social and economic cost of this effect on children's lives is immeasurable. Sadly, there were nearly 25 million children living in households with cost burdens as of 2015.

Affordable housing also can promote economic mobility. A recent Harvard University study, *The Equality of Opportunity Project,* found that moving younger children from a high-poverty neighborhood to a more integrated, lower poverty neighborhood improves their chances of going to college, lowers their risk of becoming a single parent, and increases their expected income as an adult by as much as 30 percent. Housing production programs, such as the Credit and Bonds, which build and preserve affordable housing in lower poverty neighborhoods, are critical to achieving these results.

Affordable housing sited near transportation and areas with employment opportunities as part of larger redevelopment plans provides low-income households with better access to work, which increases their financial stability and may help them eventually achieve independence from government assistance. It also provides employers in those areas with needed labor.

Not only do affordable housing programs deliver immeasurable benefits to the low-income households for whom they provide homes, they also have an enormous immediate impact on the economy through the creation of jobs and generation of tax revenue. The Housing Credit supports approximately $3.5 billion in Federal, State, and local taxes; $9.1 billion in wages and business income; and 95,700 jobs across various U.S. industries every year. The National Association of Home Builders estimates that in its first year, a typical 100-unit Housing Credit property on average provides $8.7 million in additional wages for local workers and business profits; creates $3.3 million in additional Federal, State, and local tax revenue; and supports 116 jobs.

Housing Bonds also have a profound economic impact. According to models formulated by the National Association of Home Builders and the National Association of REALTORS®, in the 10-year period from 2006 to 2015, State HFA MRB homeownership programs generated almost 50,000 jobs annually. Multifamily Housing Bonds also spur important economic growth. Over the same period of time, State construction and rehabilitation of apartments financed with HFA multifamily Housing Bonds generated approximately 27,000 jobs and added over $2 billion to GDP annually on average.

PRESERVE, EXPAND, AND STRENGTHEN THE HOUSING CREDIT

Since the Housing Credit's creation over 30 years ago, Congress has acted several times to strengthen and refine it so that the program is equipped to meet new and changing housing challenges. As you now consider changes to the current tax structure, NCSHA urges you to use this opportunity to build on what works, not only by preserving the Housing Credit program, but also by expanding Credit resources so that we can better address the Nation's severe affordable rental housing shortage, and by enacting policy modifications to strengthen this already highly successful program.

Passing Senator Cantwell and Chairman Hatch's Affordable Housing Credit Improvement Act, S. 548, is essential to addressing the affordable housing crisis. The lynchpin provision of this legislation would expand the Housing Credit authority each State receives by 50 percent over 5 years. This cap increase would allow States to make meaningful progress towards meeting the housing needs of their low-income residents. We know that Congress faces extraordinary pressure as it directs limited Federal resources to so many priorities. However, we strongly believe that investing new resources in the Housing Credit makes sense, even in this time of budget austerity.

Each year, State Housing Credit allocating agencies receive applications requesting nearly three times more Housing Credit resources than agencies have to allocate. Yet even this does not quantify the extent to which demand for affordable rental housing outstrips the supply of Credits, as many developers with worthwhile projects do not even bother applying because the competition for Credit is so fierce.

State Housing Credit allocating agencies face difficult choices—not just whether to direct their limited Credit resources to preservation as opposed to new construction, but also whether to commit them to rural rather than urban areas or to neighborhood revitalization rather than to projects in high-opportunity areas. Agencies must balance whether to finance supportive housing for persons experiencing homelessness against assisted living for the elderly, housing for needy families, and projects for veterans—all of which serve populations with extraordinary housing and service needs.

Reliance on the Housing Credit to meet the needs of so many populations has only grown as Federal resources for housing programs funded through the appropriations process have shrunk. Funding for the HOME Investment Partnerships (HOME) program has been cut by nearly half since 2010. HOME has long been a critical source of gap financing in Housing Credit developments, and without adequate funding for it we must rely even more on Housing Credit equity to build those properties.

Moreover, the Federal Government in recent years has turned to the Housing Credit time and again to achieve other Federal priorities such as transforming the Nation's public housing through the Rental Assistance Demonstration (RAD) program and producing housing for persons with disabilities in conjunction with the section 811 Project Rental Assistance program. Congress has already raised the cap on public housing units eligible for RAD multiple times, and the administration this year proposed to eliminate that cap entirely. Moreover, Congress is now considering allowing section 202 elderly housing properties with Project Rental Assistance Contracts also to become eligible for RAD. Those public housing and section 202 properties will likely need to rely on the Housing Credit for the equity necessary to undertake the RAD transition. There simply are not enough Housing Credit resources to meet all these demands.

In addition to the increase in authority, NCSHA strongly supports other provisions of the Affordable Housing Credit Improvement Act that would strengthen the bond-financed portion of the Housing Credit program; amend the Housing Credit income limits to allow for income averaging, thus allowing low-income families earning up to 80 percent of AMI access to Credit properties, while improving affordability for ELI households; provide parity in Housing Credit income rules for rural properties; simplify complex program rules, such as the Housing Credit student rule; and establish a State-determined basis boost of up to 50 percent for units in Housing Credit properties reserved for ELI households. These, and all of the bill's other provisions, would make an already successful program even more so.

Lastly, we also ask that you be mindful of the impact other changes you may make to the tax code could have on the Housing Credit and Housing Bonds, and seek to prevent any unintentional negative effects those tax changes could have on these programs.

PRESERVE THE TAX-EXEMPT PRIVATE ACTIVITY HOUSING BOND PROGRAM

For decades, the Housing Bond program—multifamily bonds for financing affordable rental housing and the MRB and MCC programs for financing affordable first-time, modest home purchases—has been an essential and successful tool in our affordable housing efforts. While these bonds are private activity bonds (PAB), Congress deemed that the affordable housing they make possible is worthy of a tax exemption, not just because of the direct housing benefits these bonds provide but also because of the positive effects the housing opportunities they create have more broadly on families, communities, and the economy.

In recent years, a few tax reform proposals have been advanced, both in Congress and from outside experts, which would eliminate the tax deduction for interest on PABs while maintaining the exemption for other municipal bonds. This would be a mistake, and would drastically set back our efforts to provide affordable housing to those in need.

While it is true PABs provide direct financing to private entities, the bonds fulfill a very important public purpose that the market is often unable to meet. This is certainly the case with Housing Bonds. In addition to affordable housing, PABs support many other critical public priorities, such as financing for airport renovations, sewage facilities, public power, and affordable student loans. Simply put, repealing or limiting the tax exemption for PABs would severely hamper State and local governments' efforts to support affordable housing and other locally determined priorities.

The Housing Bond market, like many financial markets, has not fully recovered from the financial, housing, and broader economic crises of recent years. The historically low interest rates we have experienced during the recovery have hampered further the Housing Bond market by greatly reducing the Housing Bond tax-exempt interest rate advantage. However, interest rates now are beginning to rise and are likely to continue to climb.

As we enter a more typical interest rate environment, the tax exemption afforded to Housing Bonds will be even more critical to helping lower income home buyers purchase their first homes. Already, the market for Housing Bonds has strengthened. The most recent available data shows that in just 1 year—from 2013 to 2014—State HFA bond issuance jumped by 39 percent, as demand for tax-exempt bond-financed housing grew. At this pace, we fully expect the PAB cap soon will be fully subscribed in most States—and oversubscribed in some—just as it has been historically.

Given the considerable need for more bond authority in many States, we hope to explore with the committee a mechanism—not unlike that which already exists for the Housing Credit—for the redistribution of expiring bond authority to those States that are using all of their authority.

In Utah, our Housing Bond programs are well oversubscribed. We could easily use 3 times our allotment for MRBs, and demand for multifamily Housing Bonds has been staggering as well.

STREAMLINE AND SIMPLIFY THE HOUSING BOND PROGRAM

NCSHA recommends Congress take a few modest steps to make the highly successful Housing Bond program even more effective. With tax reform, Congress has the opportunity to further strengthen Housing Bonds by making low or no cost changes to eliminate outdated rules and to give States more flexibility to respond to their unique needs and circumstances. For example, within the MRB program, the purchase price limit is no longer needed, as the income limits Congress later imposed much more effectively control the price of homes MRB borrowers can purchase. The considerable resources HUD and Treasury expend coming up with the purchase price limits annually could be deployed elsewhere.

In addition, the MRB home improvement loan program, especially important now given the repair needs of foreclosed properties and the home maintenance families were forced to defer during the recession, would be much more useful if Congress increases its loan limit of $15,000 by an amount at least adequate to reflect the rise in construction costs since it was first established in 1980 and indexes that limit to keep up with construction cost inflation annually. We also encourage Congress, as it did on a temporary basis from 2008 through 2010, to allow State HFAs to use MRBs for refinancing, so State HFAs can help otherwise qualified borrowers.

In addition, we urge you to adopt proposals that would improve investor interest in the Housing Bond program. For example, NCSHA supports exempting interest earned on refunding Housing Bonds from the Alternative Minimum Tax. Conversely, we urge you to resist proposals that would undermine investor interest in Housing Bonds, such as limiting the value of the municipal bond interest deduction to a lower tax rate, as this would greatly diminish the value of Housing Bond investments and, consequently, investor interest in them.

We also have several suggestions for simplifying the MCC program, which the tax code provides as an alternative to MRBs and which states utilize more when the Housing Bond rate advantage is limited, as it has been in recent years. MCCs help lower income families afford homeownership by allowing first-time home buyers who meet the MRB program's income requirements to claim a dollar-for-dollar tax credit for a portion of the mortgage interest they pay each year, up to $2,000. Specifically, we urge you to simplify the MCC calculation; permit HFAs to recycle MCCs, as you allow them to recycle Housing Bonds; provide HFAs the flexibility to shorten the MCC term and/or "front load" its benefits; eliminate the $2,000 annual credit cap on MCC benefits; and provide HFAs the flexibility to structure the MCC assistance to respond to diverse home buyer needs. We would be happy to provide further detail on any of these proposals.

Thank you for your commendable efforts to support affordable housing. I am honored to have had this opportunity to testify before the committee to provide NCSHA's and my own State's perspective on the effectiveness of the Housing Credit and Housing Bond programs, and on how the committee can strengthen these programs. NCSHA and its member HFAs stand ready to assist you in any way we can.

QUESTIONS SUBMITTED FOR THE RECORD TO GRANT WHITAKER

QUESTION SUBMITTED BY HON. ORRIN G. HATCH

Question. Are there any best practices or other recommendations you have for requirements based on oversight done at the State housing agency level we could put in legislation for State housing agencies to follow? Would you recommend any requirements be put in legislation or are there other ways to address the oversight question?

Answer. State Housing Finance Agencies (HFA) take their Low Income Housing Tax Credit (Housing Credit) oversight responsibilities very seriously. In fact, in many areas, HFAs exceed the requirements of Federal law and regulation, such as by requiring deeper income targeting, longer property affordability terms, and more stringent market study requirements.

HFAs collectively through our national organization, the National Council of State Housing Agencies (NCSHA), have developed recommended practices in Housing Credit administration that support HFAs in their pursuit of the highest standards of administration while preserving their need to respond most effectively to their own housing needs and priorities. The U.S. Government Accountability Office (GAO) has recognized the value of NCSHA's recommended practices in several of its reports on the Housing Credit.

HFAs have revised and updated these recommended practices multiple times over the last three decades, and are currently engaged in an effort to further strengthen and expand them. This effort has been underway for the last year, and we expect the NCSHA board of directors to adopt the updated practices later this year. These recommended practices cover all areas of program oversight, including cost certification, cost containment, developer fee limits, and compliance during the extended use period.

There are, however, steps we suggest Congress consider taking to further strengthen State oversight of the Housing Credit program through legislative changes. Our recommendations are as follows:

- *Foreclosure prevention:* Congress should pass the Affordable Housing Credit Improvement Act, S. 548, sponsored by Senator Maria Cantwell (D–WA) and Senate Finance Committee Chairman Orrin Hatch (R–UT), which already has strong bipartisan support. Among the bill's many provisions that would give

States stronger administrative authority and flexibility is the provision ensuring that affordability restrictions endure in the case of illegitimate foreclosures. Under current law, if a property is acquired by foreclosure (or instrument in lieu of foreclosure) during the extended use period, the affordability restrictions terminate unless the Secretary of the Treasury determines that the acquisition was part of an arrangement to terminate the affordability restrictions and not a legitimate foreclosure. In practice, it is difficult—if not impossible—for the Treasury Secretary to make such determinations about individual properties. S. 548 would transfer that responsibility from Treasury to the States, which already are tasked with ongoing compliance monitoring of Housing Credit properties. The legislation would further require the owner or successor acquiring the property to provide the State with 60 days written notice of its intent to terminate the affordability period so that States have time to assess the legitimacy of the foreclosure.

- *Underwriting of Housing Bond-financed Housing Credit properties:* Congress should consider amending Internal Revenue Code section 42(m)(2)(D), which provides that the governmental unit that issues the Housing Bonds used to finance a 4 percent Housing Credit property must ensure that the Housing Credit amount provided to the property does not exceed that which is necessary for the property's financial feasibility. Unfortunately, some local government entities that issue Housing Bonds do not have the capacity to underwrite properties and properly ensure that sufficient Credit authority is provided, while not over-subsidizing the property. Instead, we believe that underwriting bond-financed properties should be the responsibility of the State Housing Credit allocating agency, not only for the 9 percent Housing Credit, but also for bond-financed 4 percent Credit properties. State allocating agencies have the capacity and expertise to underwrite these deals, and in practice, they typically undertake this responsibility for bond-financed properties, even though the law does not require it of them, because of their interest in ensuring proper underwriting. However, it would be prudent for Congress to clarify in statute that this responsibility lies with the State allocating agency and not the local bond issuer.
- *Resources for IRS oversight:* GAO's reports on the Housing Credit have pointed to several areas where it believes increased federal oversight of the Housing Credit would be beneficial. NCSHA would support increasing the resources provided to the Internal Revenue Service (IRS) so that it is better able to achieve these goals, which would further support state oversight capacity. Specifically, we encourage Congress to increase resources for IRS so that it may improve internal protocols related to the Housing Credit and allow it to undertake community outreach to industry groups and taxpayers. More resources would also better equip IRS to determine if tax returns may warrant an audit and conduct those audits if necessary, assist it in reconciling Housing Credit forms from allocating agencies and taxpayers to identify potential inconsistencies, and populate and make necessary technical updates to IRS's Low-Income Housing Credit database. Increased resources would also help the IRS Office of Chief Counsel in its provision of timely Housing Credit guidance. Lastly, IRS could use additional resources to develop and fund a whistleblower hotline at the IRS so that individuals who are aware of potential fraudulent activities can make reports to IRS.

QUESTIONS SUBMITTED BY HON. ROBERT P. CASEY, JR.

Question. This is a little out of scope, as it pertains to HUD's section 202 Supportive Housing for the Elderly program, but I would welcome your thoughts. We all know the population of our country is growing rapidly, and there is an acute shortage of affordable senior housing. Thirty-eight percent of section 202 tenants are frail or near-frail, requiring assistance with basic activities of daily living. Without access to supportive housing, these individuals would be at high risk of institutionalization. Do you think funding section 202 as a means of keeping older adults out of nursing homes is a worthy public policy goal? If you are able to, can you share best practices for home modification programs that would help low-income elderly and/or disabled individuals stay in their existing homes?

Answer. NCSHA supports the section 202 Supportive Housing for the Elderly program, which is a critical tool for meeting the needs of America's aging population. However, section 202 cannot possibly meet the vast and growing needs of our seniors on its own. As it is for all other populations of low-income renters, the Housing Credit is central to addressing seniors' affordable housing needs. Of the 3 million affordable homes financed with the Housing Credit since its inception in 1986, more than 800,000 are headed by older adults. More than half of states provide additional points in their Housing Credit application process for developments that house persons over 55 or 62 years old or making other provisions that benefit seniors, such as providing services, using universal design components, or locating near a senior service center.

Both the administration's FY 2018 budget request and the Senate Appropriations Committee-passed Transportation, Housing, and Urban Affairs funding bill would make section 202 units eligible to participate in HUD's Rental Assistance Demonstration (RAD) and lift the cap on total units eligible for RAD participation. The RAD program is highly dependent on the Housing Credit as a means of attracting the private capital to RAD developments. Therefore, should Congress implement this proposal, it would create additional demand for Housing Credit authority.

Seniors' dependence on the Housing Credit and the unmet need for affordable housing for seniors underscore the need for increasing Housing Credit authority. The Affordable Housing Credit Improvement Act would expand Housing Credit resources by 50 percent, phased in over 5 years. NCSHA believes that Congress should increase the Housing Credit cap by at least this much.

In regards to Senator Casey's question regarding home modification program best practices, many State HFAs administer successful emergency home repair programs that help elderly homeowners, among others. Often these repairs allow seniors to age in place and are critical for people on fixed-incomes, as so many seniors are. These programs frequently rely on HOME Investment Partnerships (HOME) program or Community Development Block Grant (CDBG) funding.

In Utah, the Bear River Association of Governments, consisting of Utah's three northern most counties, offers two essential CDBG-funded home repair programs. The Emergency HOME Repair Program provides grants of up to $2,000 for minor home repairs needed to correct hazardous situations and ensure safe living conditions. The Single Family Rehabilitation and Reconstruction Program provides low interest rate loans to households living in substandard housing in need of major repairs.

In 2013, the Indiana Housing Development Authority won an NCSHA Annual Award for Program Excellence for a program it implemented to support home and community improvements designed to help seniors age in place. This program, and others like it across the country, are models for how State agencies can assist seniors with home modifications and repairs.

Unfortunately, Federal tax law imposes a significant limitation on States' abilities to finance home improvement loans for critical repairs by setting an exceptionally low limit on the home improvement loans States can finance with the Mortgage Revenue Bond (single-family private activity tax-exempt Housing Bond) program. The limit is set by statute at $15,000 and has not been increased since it was first established in 1980. Over that time period, inflation (as measured by the Consumer Price Index) has increased nearly 200 percent ($15,000 in 1980 is worth the equivalent of more than $43,000 today). Consequently, many of the critical repairs the program was designed to support are now too expensive to qualify for MRB financing. Therefore, we strongly encourage Congress to either raise the MRB home improvement loan limit to reflect the increase in construction cost since 1980 and index it to annually reflect cost increases or preferably, to just eliminate it entirely and allow States to set their own limits.

Question. According to the Center for Budget Policy and Priorities, the cuts to HUD's FY 2018 budget proposed by the White House would eliminate more than 250,000 Housing Choice Vouchers next year. This comes at a time when public housing agencies across the country are already facing massive wait lists for these vouchers. Philadelphia alone projected 18,230 households on its HCV wait list at the beginning of FY 2017. With the need for HUD rental assistance far outpacing the available funds, can you discuss the challenges States face in prioritizing different high-need groups such as families with children, people with disabilities, and homeless veterans?

Answer. NCSHA strongly opposes cuts in the voucher program. There simply are not enough affordable housing resources—both capital resources like the Housing Credit and operating or rental resources like the Housing Choice Voucher program—to meet the need. More than 11.2 million severely cost-burdened renter households spend more than half their income on housing. Demand is increasing, as more and more low-income households enter the rental market each year, while we confront the loss of increasing amounts of our existing affordable housing stock.

In Utah, we have seen a significant increase in the population of extremely low-income (ELI) renters (those with incomes of 30 percent or less of area median income). In 2009, ELI households made up 20.7 percent of all renters in Utah, but by 2013 they comprised 22.5 percent of renters. More than three quarters of these households are severely cost-burdened, meaning they pay more than 50 percent of their income for rent

Both the Housing Credit and Housing Choice Vouchers play a critical role in addressing the need. These programs have distinct and complementary purposes. Unlike the Housing Credit, the voucher program was not designed to address challenges such as expanding affordable rental housing supply in tight markets, producing housing for households with special needs, building properties in areas experiencing job growth, recapitalizing and preserving aging properties, and revitalizing low-income communities. Rather, vouchers are designed to make existing housing more affordable to low-income households. We need both to address our growing housing needs.

Question. Can you discuss current mechanisms and best practices to ensure that units available to low-income renters continue meeting basic quality standards, particularly after the 15 year LIHTC period?

Answer. One of the most important roles State agencies play in administering the Housing Credit is compliance monitoring, which includes inspecting properties to ensure quality standards are met throughout the full affordability period, including the extended use period after year 15. In its 2016 report on State administration of the Housing Credit program, GAO found that all the agencies it visited had processes in place for conducting compliance monitoring of properties consistent with law and regulations, including processes for monitoring properties after year 15, and many went above and beyond Federal statutory and regulatory requirements in their monitoring.

In 2012, the U.S. Department of Housing and Urban Development published an extensive report titled *What Happens to Low-Income Housing Tax Credit Properties at Year 15 and Beyond?,* in which HUD found, "The vast majority of LIHTC properties continue to function in much the same way they always have, providing affordable housing of the same quality at the same rent levels to essentially the same population without major recapitalization."

While tax credits are no longer eligible for recapture by IRS after year 15, States still have a variety of means for enforcing affordability restrictions in the extended use period. These include helping owners to ensure property performance while still complying with rent and income limits, barring owners who fail to comply from receiving future Housing Credit allocations, and even pursuing legal action against owners who fail to comply with the extended use agreement. Sadly, Utah Housing Corporation has been forced to file suit recently against a project owner for failing to maintain project compliance. However, this underscores the fact that allocating agencies can and do take legal action when it is necessary to ensure compliance with the Housing Credit statute after year 15.

Question. The HOME program and Community Development Block Grants are two of the most often-used Federal programs for gap financing for construction of affordable housing. President Trump's FY18 budget proposes eliminating both of these programs. At the same time, housing agencies across the country are facing major low-income housing shortages. Philadelphia, for example, had nearly 40,000 people on the Philadelphia Housing Agency's public housing wait list in October 2016. Can you discuss the anticipated impact of eliminating the HOME and CDBG programs on the supply of low-income housing?

Answer. The elimination of HOME would be disastrous to the efforts to address our Nation's severe housing needs. HOME is an essential and flexible housing resource that is critical not only to rental housing financed with the Housing Credit, but also to programs to help low-income creditworthy home buyers through down payment assistance and lower rate mortgages and homeowners through home rehabilitation programs. HOME funding already has been cut by nearly half since 2010.

HOME funding is a critical "gap filler" resource in nearly 20 percent of Housing Credit properties nationwide. In 2015, Utah used HOME funding in over half of our Housing Credit units. The gap is the difference between the Housing Credit equity for which a property is eligible and the actual cost of building or rehabilitating that property. It can either be filled with hard debt, such as a bank mortgage, or soft financing sources like HOME, which reduce or eliminate the amount of debt required to finance the property, thus making it possible to charge lower rents. HOME helps States serve ELI households, including families with young children, seniors, persons with disabilities, veterans, and other needy households, with the Housing Credit, sometimes even without rental assistance. Therefore, we strongly urge Congress to at least level fund HOME at $950 million in FY 2018, as the Senate Appropriations Committee has proposed.

QUESTION SUBMITTED BY HON. MICHAEL F. BENNET

Question. According to the National Low-Income Housing Coalition, a worker in Colorado needs to make $22 per hour to make a modest two-bedroom apartment affordable. As is the case elsewhere, affordable housing is in short supply, and the crisis has disproportionately impacted low-income families. What do you believe are the causes for the shortage of affordable options, especially for low- and moderate-income households?

Answer. The private market is unable to respond to the need for affordable housing absent an incentive such as the Housing Credit because it simply costs too much to build housing to rent it at rates low-income people can afford. Harvard's Joint Center for Housing Studies states that, "to develop new apartments affordable to renter households with incomes equivalent to the full-time minimum wage, the construction cost would have to be 28 percent of the current average." The fact is, that unlike many other tax expenditures, which subsidize activity that would occur at some level without a tax benefit, virtually no affordable rental housing development would occur without the Housing Credit.

PREPARED STATEMENT OF HON. RON WYDEN,
A U.S. SENATOR FROM OREGON

At the outset of this morning's hearing, I want to begin by thanking Chairman Hatch and Senator Cantwell. They are leading the charge when it comes to affordable housing, particularly through smart tax policies the committee will discuss today, and I'm looking forward to working more with them on these issues.

Our country's housing policy needs an urgent remodel. Today millions of Americans struggle to pay the rent, and they can't even dream of purchasing a home.

To get into a bit of Introduction to Economics, a key housing challenge is increasing supply. When housing is scarce in the communities where people want to live and work, prices get bid up, and working people get pushed out. Rent increases faster than people's incomes, even among people who earn a decent wage. There are few incentives to build affordable housing near schools, public transit and amenities like parks and retail.

Oftentimes, the only places where people can afford housing are an hour or more from where they work or want their kids to go to school. Many people either spend a small fortune on train tickets and bus fares, or they spend eternities sitting behind a steering wheel on the daily commute. Many families wind up in food deserts where it's next to impossible to get healthy, fresh meals.

This crisis is a five-alarm fire across the country and all over my home State of Oregon—in Portland, Bend, Hood River, Astoria, Medford and so many other places. It's evident in the faces of far too many Oregon children, veterans, and families living on the streets.

On this committee, Senator Cantwell and Chairman Hatch have spent considerable time fighting this supply shortage. They've got an important bill that I cosponsored called the Affordable Housing Credit Improvement Act of 2017. Their proposal is all about supercharging the Low-Income Housing Tax Credit and wringing more value out of every dollar that goes into it. And it builds on what the three of us got in the 2015 tax bill, which made the expanded LIHTC credit permanent.

In my view they've developed smart ways of attacking this scarcity problem, and that will mean more housing goes up in communities where people want to work and plant roots.

I'll have other ideas to talk about in the days and weeks ahead—ideas about helping the middle class and first-time homebuyers, as well as better-linking services with low-income housing.

But as for today's hearing, I'm looking forward to talking with our witnesses about some of the ideas Senators Cantwell and Hatch have put forward, as well as how it'll be possible to incentivize more housing construction near transit, schools and amenities.

I'll wrap up with one last thought. Senators Cantwell and Hatch are demonstrating how the two sides can work together on major economic challenges. After a heated few weeks in the Senate, I know both sides crave a return to bipartisanship and regular order, and for this committee that would mean tax reform is likely on the horizon.

Senate Democrats outlined our principles for a tax overhaul in a letter to the majority this morning. It spells out what our caucus will bring to the debate. And in my view, it's in the best tradition of this committee to tackle big issues like tax reform on a bipartisan basis, so it's my hope that we're able to bring the two sides together on this issue in the months ahead.

COMMUNICATIONS

A CALL TO INVEST IN OUR NEIGHBORHOODS (ACTION) CAMPAIGN

The A Call To Invest in Our Neighborhoods (ACTION) Campaign, representing over 2,000 national, state, and local organizations and businesses, thanks the Senate Finance Committee for holding a hearing on "America's Affordable Housing Crisis: Challenges and Solutions." This hearing provided the Committee an opportunity to hear from expert witnesses about the scope of the affordable housing crisis and how Congress can strengthen critical housing programs administered through the tax code, namely the Low-Income Housing Tax Credit (Housing Credit) and tax-exempt private activity Housing Bonds, so that we can better address the significant and growing need for affordable housing nationwide.

Much of the hearing focused on the Affordable Housing Credit Improvement Act, S. 548, which Senator Maria Cantwell (D–WA) and Senate Finance Committee Chairman Orrin Hatch (R–UT) introduced earlier this year. This crucial piece of legislation would increase Housing Credit authority, facilitate Housing Credit development in challenging markets and for hard-to-reach populations, support the preservation of existing affordable housing, and simplify program requirements. The ACTION Campaign is grateful to Senator Cantwell and Chairman Hatch for their leadership, and to the other Committee members—Ranking Member Ron Wyden (D–OR) and Senators Dean Heller (R–NV), Michael Bennet (D–CO), Rob Portman (R–OH), and Johnny Isakson (R–GA)—for their co-sponsorship support. We strongly urge the Committee to advance this critical bill as part of any tax legislation it considers.

The Housing Credit Has a Remarkable Track Record

President Reagan and the Congress showed remarkable foresight when they created the Housing Credit as part of the Tax Reform Act of 1986. The Housing Credit is now our nation's most successful tool for encouraging private investment in the production and preservation of affordable rental housing, with a proven track record of creating jobs and stimulating local economies. For over 30 years, the Housing Credit has been a model public-private partnership program, bringing to bear private sector resources, market forces, and state-level administration to finance more than 3 million affordable apartments—nearly one-third of the entire U.S. inventory—giving more than 6.7 million households, including low-income families, seniors, veterans, and people with disabilities, access to homes they can afford. Roughly 40 percent of these homes were financed in conjunction with multifamily Housing Bonds, which are an essential component of the program's success.

The Housing Credit Is a Proven Solution to Meet a Vast and Growing Need

Despite the Housing Credit's tremendous impact, there are still 11 million renter households—roughly one out of every four—who spend more than half of their income on rent, leaving too little for other necessary expenses like transportation, food, and medical bills. This crisis is continuing to grow. HUD reports that as of 2015, the number of households with "worst case housing needs" had increased by 38.7 percent over 2007 levels, when the recession began, and by 63.4 percent since 2001. A study by Harvard University's Joint Center for Housing Studies and Enterprise Community Partners estimates that the number of renter households who pay more than half of their income towards rent could grow to nearly 15 million by 2025.

Without the Housing Credit, there would be virtually no private investment in affordable housing. It simply costs too much to build rental housing to rent it at a level that low-income households can afford. In order to develop new apartments that are affordable to renters earning the full-time minimum wage, construction costs would have to be 72 percent lower than the current average.

The Housing Credit Creates Jobs

Housing Credit development supports jobs—roughly 1,130 for every 1,000 Housing Credit apartments developed, according to the National Association of Home Builders (NAHB). This amounts to roughly 96,000 jobs per year, and more than 3.25 million since the program was created in 1986. NAHB estimates that about half of the jobs created from new housing development are in construction. Additional job creation occurs across a diverse range of industries, including the manufacturing of lighting and heating equipment, lumber, concrete, and other products, as well as jobs in transportation, engineering, law, and real estate.

The Housing Credit Stimulates Local Economies and Improves Communities

The Housing Credit has a profound and positive impact on local economies. NAHB estimates that the Housing Credit adds $9.1 billion in income to the economy and generates approximately $3.5 billion in federal, state, and local taxes each year.

Conversely, a lack of affordable housing negatively impacts economies. Research shows that high rent burdens have priced out many workers from the most productive cities, resulting in 13.5 percent foregone GDP growth, a loss of roughly $1.95 trillion, between 1964 and 2009.

Housing Credit development also positively impacts neighborhoods in need of renewal. About one-third of Housing Credit properties help revitalize distressed communities. Stanford University research shows Housing Credit investments improve property values and reduce poverty, crime, and racial and economic isolation, generating a variety of socio-economic opportunities for Housing Credit tenants and neighborhood residents.

Affordable Housing Improves Low-Income Households' Financial Stability

Affordable housing promotes financial stability and economic mobility. It leads to better health outcomes, improves children's school performance, and helps low-income individuals gain employment and keep their jobs. Affordable housing located near transportation and areas with employment opportunities provides low-income households with better access to work, which increases their financial stability and provides employers in those areas with needed labor.

Families living in affordable homes have more discretionary income than low-income families who are unable to access affordable housing. This allows them to allocate more money to other needs, such as health care and food, and gives them the ability to pay down debt, access childcare, and save for education, a home down payment, retirement, or unexpected needs.

The Housing Credit Is a Model Public-Private Partnership

The Housing Credit is structured so that private sector investors provide upfront equity capital in exchange for a credit against their tax liability over 10 years, which only vests once the property is constructed and occupied by eligible households paying restricted rents. This unique, market-based design transfers the risk from the taxpayer to the private sector investor. In the rare event that a property falls out of compliance during the first 15 years after it is placed in service, the Internal Revenue Service can recapture tax credits from the investor. Therefore, it is in the interest of the private sector investors to ensure that properties adhere to all program rules, including affordability restrictions and high-quality standards—adding a unique accountability structure to the program.

The Housing Credit Is State Administered with Limited Federal Bureaucracy

The Housing Credit requires only limited federal bureaucracy because Congress wisely delegated its administration and decision-making authority to state government as part of its design. State Housing Finance Agencies, which administer the Housing Credit in nearly every state, have statewide perspective; a deep understanding of the needs of their local markets; and sophisticated finance, underwriting, and compliance capacity. States develop a system of incentives as part of their Qualified Allocation Plans (QAP), which drives housing development decisions, including property siting, the populations served, and the services offered to residents. States are also deeply involved in monitoring Housing Credit properties, including compliance audits and reviews of financial records, rent rolls, and physical conditions.

The Housing Credit Is Critical to Preserving Our Nation's Existing Housing Investments

The Housing Credit is our primary tool to preserve and redevelop our nation's current supply of affordable housing. Without the Housing Credit, our ability to revitalize and rehabilitate our nation's public housing and Section 8 housing inventory, decades in the making, would be significantly diminished. In addition to putting the residents of these properties at risk of displacement, we would lose these investments that taxpayers have already made.

In rural areas, where direct funding for rural housing programs has been cut significantly, the Housing Credit is the backbone for preservation and capital improvements to the existing housing stock. Low-income rural residents' incomes average just $12,960, and they are often living in areas with extremely limited housing options, making preservation of the existing housing stock crucial.

The Demand for Housing Credits Exceeds the Supply

Viable and sorely needed Housing Credit developments are turned down each year because the cap on Housing Credit authority is far too low to support the demand. In 2014—the most recent year for which data is available—state Housing Credit allocating agencies received applications requesting more than twice their available Housing Credit authority. Many more potential applications for worthy developments are not submitted in light of the intense competition, constrained only by the lack of resources.

The scarcity of Housing Credit resources forces state allocating agencies to make difficult trade-offs between directing their extremely limited Housing Credit resources to preservation or new construction, to rural or urban areas, to neighborhood revitalization or developments in high opportunity areas, or to housing for the homeless, the elderly, or veterans. There simply is not enough Housing Credit authority to fund all of the properties needed, but with a substantial increase in resources, many more of these priorities would be addressed—and the benefits for communities would be even greater.

Though the need for Housing Credit-financed housing has long vastly exceeded its supply, Congress has not increased Housing Credit authority permanently in 16 years.

We Urge Congress to Expand and Strengthen the Housing Credit

To meaningfully grow our economy and address our nation's growing affordable housing needs through tax reform, we urge Congress to increase the cap on Housing Credit authority by 50 percent. Such an expansion would support the preservation and construction of up to 400,000 additional affordable apartments over a 10-year period. We also call on Congress to retain the tax exemption on multifamily Housing Bonds, which are essential to Housing Credit production.

S. 548, which would authorize such an expansion, has earned strong bipartisan support in the Senate and among Senate Finance Committee members.

This legislation would increase Housing Credit allocation authority by 50 percent phased in over 5 years, and enact roughly two dozen changes to strengthen the program by streamlining program rules, improving flexibility, and enabling the program to serve a wider array of local needs. For example, S. 548 would encourage Housing Credit development in rural and Native communities, where it is currently more difficult to make affordable housing developments financially feasible; Housing Credit developments that serve the lowest-income tenants, including veterans and the chronically homeless; the development of mixed-income properties; the preservation of existing affordable housing; and development in high-opportunity areas. The legislation would also generate a host of benefits for local communities, including raising local tax revenue and creating jobs.

An investment in the Housing Credit is an investment in individuals, local communities, and the economy. It transforms the lives of millions of Americans, many of whom are able to afford their homes for the first time—and it transforms their communities and local economies. The ACTION Campaign applauds the leadership the Senate Finance Committee has shown in support of the Housing Credit to date and urges the Committee to expand and strengthen the Housing Credit and multifamily Housing Bonds.

ACTION Campaign Co-Chairs

National Council of State Housing Agencies
Enterprise Community Partners

ACTION Campaign Steering Committee Members

Affordable Housing Tax Credit Coalition
Council for Affordable and Rural Housing
Council of Large Public Housing Authorities
CSH
Housing Advisory Group
Housing Partnership Network
LeadingAge
Local Initiatives Support Corporation/National Equity Fund
Make Room
National Association of Affordable Housing Lenders
National Association of Home Builders
National Association of Housing and Redevelopment Officials
National Association of REALTORS®
National Association of State and Local Equity Funds
National Housing and Rehabilitation Association
National Housing Conference
National Housing Trust
National Low Income Housing Coalition
National Multifamily Housing Council
Stewards of Affordable Housing for the Future
Volunteers of America

For a full list of ACTION Campaign members, visit *www.rentalhousingaction.org.*

AFFORDABLE HOUSING DEVELOPERS COUNCIL (AHDC)

Chairman Hatch, Ranking Member Wyden, and Members of the Committee:

The Affordable Housing Developers Council (AHDC) would like to thank you for holding a hearing on the critically important issue of affordable housing. AHDC is a CEO level member organization representing 19 of the top 50 affordable housing developers in the country. We are proud that our work not only produces affordable housing for families, but that the construction of our multi-family affordable housing communities also create jobs and tax revenue. Our mission is to increase federal resources for addressing affordable housing issues, support and defend existing affordable housing programs, and work to defeat changes to programs that would have a negative impact on the supply of affordable housing in the United States.

This hearing comes at a crucial time. The lack of affordable housing in our country has reached a level of crisis, and projections show that the crisis will continue to get worse without a legislative fix. Furthermore, with discussions about comprehensive tax reform underway, there is both an opportunity to address some of these problems and a need to focus on protecting the successful programs already being utilized. **We urge Congress to preserve the low-income housing tax credit (LIHTC) in any comprehensive tax reform package, and enhance LIHTC through legislation such as the Affordable Housing Credit Improvement Act (S. 548) and disaster tax relief including provisions to address housing shortages in impacted communities.**

Background

The United States faces a severe housing affordability crisis. Working families across America including police officers, teachers, and nurses are spending far too much of their income on rent due to the affordable housing shortage, with more than half of all renters spending over 30% of their income on rent and over 11 million households spending more than half of their income on rent. This increase represents 4 million more renting families with a critical housing affordability problem than there were in 2001. Furthermore, almost 400,000 low-income and working family households are expected to enter the market each year for the next 10 years.

We believe that LIHTC is a valuable tool in addressing the growing problem of affordable housing in this country. The tax credit encourages public-private partnerships designed to encourage the development of affordable housing nationwide. Signed into law in 1986 by President Reagan, the structure of the program ensures that private developers bear the financial risk instead of the government, taking advantage of using market forces and private sector resources to provide economic revitalization in both rural and urban communities. LIHTC is a critical program that provides low-income families, seniors, veterans, and people with disabilities access to affordable housing, financing nearly 3 million rental units across the country since its adoption.

Preserving the low-income housing tax credit

LIHTC must be maintained in any deliberation on tax reform, especially as Congress grapples with the revenue neutrality of the legislation. This program is a documented long term success that attracts private at-risk investment and creates jobs that stay here in the United States, and resources for affordable housing must be maintained as low-income and working class Americans continue to struggle to make ends meet.

As tax reform is considered, Congress should also be aware that lowering the corporate tax rate impacts and decreases the value of LIHTC. In other words, you could maintain LIHTC in its current form, but absent any enhancement to LIHTC, with a lower corporate rate there will be less equity to build affordable housing in the United States. These unintended consequences must be addressed in any lowering of the corporate tax rate.

Expanding the credit

LIHTC should not only be preserved and secured during negotiations over comprehensive tax reform, but strengthened by passing the Affordable Housing Credit Improvement Act of 2017 (S. 548) and comprehensive disaster tax relief to address affordable housing shortages in impacted communities throughout the country.

The Affordable Housing Credit Improvement Act expands the annual allocation of the credit by 50 percent and includes key provisions to streamline the administration of the program. Several members of the Committee have already joined as cosponsors, and we thank you again for leader ship on this issue. We urge all committee members to support the legislation. As mentioned above, this program has a long record of success, and its expansion is a simple way to help alleviate the housing affordability crisis in America.

We also support legislation that provides comprehensive natural disaster tax relief, including housing relief, in the wake of presidentially declared FEMA disasters. Affordable housing stock is even further reduced in the wake of the many natural disasters our country unfortunately endures on a yearly basis. Unfortunately, Congress has not acted to help communities with tax relief since Senator Roberts' last major effort, the Heartland Disaster Tax Relief Act of 2008. Individuals, small businesses and housing need help to recover in the wake of a major natural disaster. We urge you to review this policy in the context of addressing our nation's affordable housing challenges.

Conclusion

Despite the successes of LIHTC, it is important now more than ever to strengthen and secure the program, and take a critical step towards addressing the affordable housing supply gap. We urge Congress to preserve the program in the upcoming tax reform deliberations, and to enhance LIHTC through the Affordable Housing Credit Improvement Act of 2017 and comprehensive disaster tax relief.

We thank you again for holding a hearing on this critically important topic. We look forward to being a resource to the Committee and are happy to answer any additional questions.

The A.H.D.C. is bringing together the CEOs of the nation's top affordable housing developers to advance federal policies that support the industry's ability to meet the nation's affordable housing needs. To date, the Founders Council includes:

AU Associates
Holly Weidmann
President and CEO
http://auassociates.com/

Carleton Residential Properties
Jeffrey Fulenchek
Partner and Director of Development
http://carletonresidential.com/

The Commonwealth Companies
Louie Lange
President
http://commonwealthco.net/

Conifer
Tim Fournier
Chairman and CEO
http://coniferllc.com/

Dominum
Paul Sween
Co-Managing Partner
http://dominiumapartments.com/

Hudson Housing Capital
W. Kimmel Cameron
Vice President
http://hudsonhousing.com/

Gorman and Company, Inc.
Gary Gorman
CEO
http://www.gormanusa.com/

The Michaels Organization
Gary Beuchler
President
http://themichaelsorg.com/

Norstar USA
Linda L. Goodman
Senior Vice President
http://norstarcompanies.com/

Pennrose
Mark Dambly
President
https://pennrose.com/

RedStone Equity Partners
Eric McClelland
President and CEO
http://redstoneco.com/

Silver Street Development Corporation
Roger J. Gendron
President
http://silver-street.net/

Winn Companies
Larry H. Curtis
President and Managing Partner
http://winncompanies.com/

Meta Housing Corporation
Kasey Burke
President
http://www.metahousing.com/

The NHP Foundation
Richard Burns
President
http://www.nhpfoundation.org/

NYS/FAH
Jolie A. Milstein
President and CEO
http://nysafah.org/index.php

Preservation of Affordable Housing
Rodger Brown
Managing Director
http://pokopartners.com/

Related
Jeff Brodsky
Vice Chairman
http://related.com/

Sugar Creek Capital
Chris Hite
President
http://sugarcreekcapital.com/

CAPITAL ONE FINANCIAL CORPORATION
1680 Capital One Drive
McLean, VA 22102

August 1, 2017

Chairman Orrin Hatch
Ranking Member Ron Wyden
Senate Committee on Finance
219 Dirksen SOB
Washington, DC 20510

Chairman Hatch and Ranking Member Wyden,

Thank you for convening today's hearing, "America's Affordable Housing Crisis: Challenges and Solutions." The United States faces a current shortage of 7.4 million affordable and available apartments for low-income households, and the Low-Income Housing Tax Credit is an essential tool to help us meet the growing need for affordable housing in communities across the country.

Like many companies, Capital One joins in the bipartisan call for thoughtful and balanced reform of our corporate tax system, including improvements to the Low-Income Housing Tax Credit (LIHTC). As with most legislation, the most important part of tax reform will be in the details. The definitions, transition rules and timing, among other things, will be of extreme importance.

Capital One Financial Corporation *(www.capitalone.com)* is a financial holding company whose subsidiaries, which include Capital One, N.A., and Capital One Bank (USA), N.A., had $239.8 billion in deposits and $350.6 billion in total assets as of June 30, 2017. Headquartered in McLean, Virginia, Capital One offers a broad spectrum of financial products and services to consumers, small businesses and commercial clients through a variety of channels. Capital One, N.A. has branches located primarily in New York, New Jersey, Texas, Louisiana, Maryland, Virginia and the District of Columbia. Capital One 360 is the nation's preeminent digital bank, offering best-in-class products and services to customers across the country. A Fortune 500 company, Capital One trades on the New York Stock Exchange under the symbol "COF" and is included in the S&P 100 index.

Founded in 1988, Capital One today employs over 41,000 associates primarily in the U.S., with small card operations in Canada and the United Kingdom. Because of Capital One's significant domestic business and simple product offerings, we pay a high corporate tax rate. This year, our estimated effective tax rate is 32 percent, which equates approximately to a $2 billion tax bill. A lower corporate tax rate would enable Capital One to better lend to our customers, to reinvest in our company and our associates, and enable us to compete with international banks.

Capital One joins with you in your call today to examine the difficulties and solutions to increasing access to affordable housing in America. Capital One is a strong supporter of increasing the number of available affordable housing units and supports S. 548, the Affordable Housing Credit Improvement Act, as an important step in providing increased affordable housing and strengthening the LIHTC program. The LIHTC is an essential tool to help us meet the growing need for affordable housing in communities across the country, and the program enjoys bipartisan support at the federal, state and local levels, and represents the best of what private-public partnerships can offer. The United States faces a current shortage of 7.4 million affordable and available apartments for low-income households. The first attachment to this letter is a national infographic intended to provide greater detail on the $8.7 billion in loans and investments Capital One has been fortunate to provide since 2007, with another $1.1 billion planned through the end of 2017.

Attached to this letter are two state specific infographics providing details on affordable housing in Utah and Iowa. Capital One is proud to be a part of $51 million in investments in Utah, which represents 844 housing units in the state. In Iowa, Capital One is partner to $169 million in investments, representing 2,148 affordable housing units.

These investments represent real families in critical need of truly affordable housing. If not for these investments, the LIHTC and community-based partnerships, affordable housing and these families would suffer. Capital One stands with you to improve and strengthen the affordable housing inventory for America's families.

Capital One appreciates the opportunity to share our priorities for federal tax reform, including our strong support for the LIHTC. We look to serve as a resource to you and your staff. Please do not hesitate to contact Kate Bonner, Director of Government and Policy Affairs, (Katherine.Bonner@capitalone.com, or 571–663–8100), for any additional assistance Capital One can provide. We welcome the opportunity to meet with you to discuss this matter in greater detail.

Sincerely,

Laura Bailey
Senior Vice President, Community Development Banking

Attachment: Capital One's Impact on Low-Income Housing; Affordable Housing: Utah; Affordable Housing: Iowa.

LIHTC Affordable Housing Investments: A Catalyst for Economic Opportunity

Capital One

Meeting a Growing Need

The U.S. has a shortage of 7.4 million affordable and available apartments for extremely low-income (ELI) households.

Capital One views affordable housing as a catalyst for expanded economic opportunity in local communities.

The Low-Income Housing Tax Credit (LIHTC) program is an essential tool to help us meet the growing need for affordable housing in communities across the country.

Capital One's Impact

$8.7 billion in loans and investments since 2007

102,600+ safe, affordable units financed since 2007

More than **115,000** jobs created across our markets since 2007

FUTURE PLANS through 12/31/2017

$1.1 billion in future loans and investments

~3,000 units in the pipeline

What Sets Capital One Apart

Our comprehensive approach to affordable housing investments is centered around building healthy, thriving communities. In addition to construction loans, investments and mortgages, we use an expanded range of funding sources to help address the broader needs of residents and the community.

SOCIAL PURPOSE GRANTS through May 2017

We see every property we invest in as more than just a real estate development. Through Capital One's Social Purpose Program, we provide our nonprofit partners with additional grants, funding and support to help respond to community needs.

29 grants totaling $5,935,000

With the help of partner organizations, we address the varied needs of residents:

Seniors
Transportation Services
Senior Wellness Centers
Grandparent Support Services

Job Seekers
Workforce Development
Skills Training
Career Placement

High-Need Populations
Substance Abuse Support
Mental Health Services
Disability Advocacy

Hands-On Learners
Financial Stability Workshops
Design Lab
BiblioTech Digital Library
Early Childhood Education and Enrichment Programs

SPECIALIZED HOUSING FOR MILITARY, SENIORS, AND INDIVIDUALS WITH DISABILITIES

~18% of units financed by Capital One are dedicated to **senior citizens**

~2% of units financed by Capital One are dedicated to supportive and military housing

Building for the Future

The LIHTC program helps Capital One make safe, affordable housing a reality for more deserving individuals and families.

Sources: National Low-Income Housing Coalition
Capital One Data

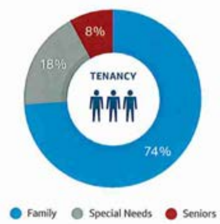
Affordable Housing: Utah

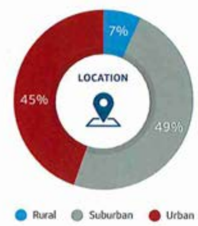
Capital One

Fund & Unit Data

Capital One has nearly $51 million in investments in Utah through its multi-fund platform.

Fund Equity: $50.6 million
Capital One Portion: $7.5 million
Number of Units: 844





Capital One financed developments include:

http://unphc.org/housing/riverwood-cove-apartments/

Riverwood Cove Apartments

582 North Riverside Drive A & B Salt Lake City, UT 84116 & 1616-1685 Northwood Avenue Salt Lake City, UT 84116

- Riverwood Cove Apartments is located in Salt Lake City, Utah, and is operated by Utah Non Profit Housing Corporation. The Property has a total of 98 low-income multifamily units.
- The Property has a Resident Assistant on site and welcomes companion/ services animals.
- USA Institutional Tax Credit Fund 72, LP, a multi-investor tax credit fund, has invested in the development of Riverwood Cove Apartments. Capital One has invested $33.2MM in the fund, which equates to 30% of the Fund's total gross investment of $110.7MM.

http://www.emg-apts.com/bearhollow.htm

Bear Hollow Apartments

550 Gramercy Avenue Odgen, UT 84404

- Bear Hollow Apartments is a multifamily property located in Garden City, Utah, and developed by Alliance Capital. The Property was constructed in 2008 and has 24 low-income units.
- Tenants can relax and take in the views of mountains and the tropical blue Bear Lake. Bear Hollow is convenient to outdoor recreational activities, schools and a variety of restaurants. The Property also provides amenities for residents including a clubhouse, playground, fitness center and 24-hour emergency maintenance.
- USA Institutional Tax Credit Fund 67, LP, a multi-investor tax credit fund, has invested in the development of Bear Hollow. Capital One has invested $27.5MM in the fund, which equates to 25.2% of the Fund's total gross investment of $109MM.

Affordable Housing: Iowa

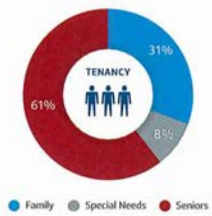
Capital One

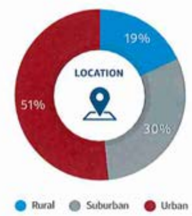
Capital One has $169 million in investments in Iowa through its multi-fund platform.

Fund Equity: $169.1 million

Capital One Direct Investment: $25.8 million

Number of Units: 2,148





Capital One financed developments include:

http://legacymanorseniors.com/

Legacy Manor of Mason City I & II
3310 9th Street Southwest Mason City, IA 50401

- Legacy Manor I & II are senior housing properties located in Mason City, Iowa, and developed by Anchor Housing Development. Legacy Manor I opened in 2013 and Legacy Manor II opened in 2015, and each property has 48 two-bedroom units.
- Legacy Manor I & II were designed and built especially for individuals ages 55 and over to live comfortably and independently. The Properties maintain an active social calendar, and residents have access to an on-site beauty/barber shop, fitness center, and business center.
- WNC Institutional Tax Credit Fund 37, LP has invested in the development of Legacy Manor I. Capital One has invested $25MM in the Fund, which is 20.1% of the Fund's total investment. WNC Institutional Tax Credit Fund 40, LP has invested in the development of Legacy Manor II. Capital One has invested $20MM in the Fund, which is 15.8% of the Fund's total investment.

http://www.newburyliving.com/properties/elsie-mason-manor-2/

Elsie Mason Manor
430 Grand Ave. Des Moines, IA 50309

- Elsie Mason Manor is senior housing property located in Des Moines, Iowa. It was developed by Newbury Development Company & Phoenix Family Housing. The Property was renovated in 2015 and has a total of 150 units, all of which are Section 8 assisted living units.
- Residents can take advantage of the library and fitness center or socialize with neighbors in the community rooms. On-site service coordinators evaluate residents and facilitate assistive and support services based on individual needs.
- National Equity Fund 2013 LP, a multi-investor tax credit fund, has invested in the redevelopment of Elsie Mason Manor. Capital One has invested $25MM in the Fund, which equates to 25% of the Fund's total gross investment of $100MM.

CENTER FOR FISCAL EQUITY

Statement of Michael G. Bindner

Chairman Hatch and Ranking Member Wyden, thank you for the opportunity to submit these comments for the record to the Committee on Finance. As usual, we will preface our comments with our comprehensive four-part approach, which will provide context for our comments.

- A Value-Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure every American pays something.
- Personal income surtaxes on joint and widowed filers with net annual incomes of $100,000 and single filers earning $50,000 per year to fund net interest pay-

ments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25%.

- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), which is essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age 60.

The Subtraction VAT/Net Business Receipts Tax is the relevant item for the purposes of this topic. Among the possible credits and deductions from this tax are the diversion of Social Security Old Age and Survivors tax revenue to employee stock grants, with a third of those traded into an insurance fund of similar companies. This is important, though not essential, because employee-owned firms can spend cooperatively as well as manage cooperatively. Current employee-owned firms could, of course, pursue these options immediately. A second credit could be for education, collegiate, trade and remedial. This credit would include both tuition and living expenses, including both pay and housing.

Larger firms would have larger apartment buildings "on campus" or would pay for campus housing from universities, trade schools and remedial education providers (both public and religious—religious adult education would fill in a whole in their product portfolio—one that is sorely lacking).

Student housing would not be "one size fits all." Students with children would also get $10,000 per child per month, payable with stipends. Students would not be one size fits all either. They could be teens, young adults or middle-aged learners who have never before had a chance at literacy or workers who have lost their jobs to automation, as well as the disabled who need skills to enter the workforce.

At some points, employee-owned cooperatives may dominate a local economy without employing all members. In such cases, in lieu of land value taxes, cooperatives could house and pay a citizens' dividend to non-workers.

Work and student rules will require that rented housing be kept neat. Longer-term workers will receive permanent housing (possibly with indoor gardening capabilities made possible by Mars exploration research) which they will be responsible for maintaining, but with maintenance and repair services so no one need let problems go unfixed. Ownership and responsibility both guard against bad landlords and bad tenants. This plan will maximize both, but only if you think outside the box.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

COUNCIL FOR AFFORDABLE AND RURAL HOUSING (CARH)
116 S. Fayette Street
Alexandria, Virginia 22314
(703) 837–9001
(703) 837–8467 Fax
carh@carh.org
www.carh.org

Statement of Tanya Eastwood, President

Chairman Hatch, Ranking Member Wyden and members of the Committee, as President of the Council for Affordable and Rural Housing ("CARH"), and on behalf of CARH and their membership, I would like to submit written testimony in support of efforts to address the affordable housing crisis, especially in rural America. CARH, the leading national trade association headquartered in Alexandria, Virginia, represents the interests of both for-profit and non-profit builders, developers, management companies, and owners, as well as financial entities and suppliers of goods and services to the affordable rural rental housing industry.

Among other organizations I am involved with, I am also President of Greystone Affordable Development, whereby I am responsible for the strategic growth and implementation of Greystone's affordable housing preservation efforts. In that role, I work closely with non-profit and for profit owners and developers in meeting the challenges associated with the preservation, recapitalization and rehabilitation of their affordable housing across the U.S. To date, we have successfully recapitalized and rehabilitated approximately 256 apartment communities (over 9,000 housing units) in the USDA Rural Development ("RD") Section 515 multifamily rural rental housing programs; and we are currently in the process of preserving an additional 85 Section 515 properties (approximately 3,700 units) across multiple states using Housing Bonds and the Affordable Housing Credit.

Rural Americans: Great Hardships Compared With Non-Rural Areas

During the August 1, 2017 Senate Finance Committee hearing, Senator John Thune (R–SD) accurately noted the affordable housing crisis is not just an urban community concern but also greatly affects rural communities across the country. Lower incomes and higher poverty rates often make housing options simply unaffordable for many rural residents, even though housing costs are generally lower in the rural communities. In fact, rural renters are more than twice as likely to live in substandard housing compared to people who own their own homes. USDA's 2016 Multi-Family Housing Occupancy Report published December 6, 2016 revealed the average household living in RD's Section 515 housing with rental assistance lives on only $10,732 per year of income and $12,960 for tenants that do not receive rental assistance.

While the demand for rental housing in rural areas remains high, the supply, particularly of new housing, has significantly decreased. According to a recent report published by the National Rural Housing Coalition ("NHRC"), the Section 515 Rural Rental Housing Loan program was once the principal source of financing for new rural rental housing development.[1] Since its peak in the mid-1980s, program levels have been cut by more than 96 percent from $954 million to just $35 million today (with further proposed cuts in the FY18 budget). Since 2012, the program has largely halted financing the construction of new rental housing; hence, the need for preservation of the existing (but aging) house stock is more critical today than any time in our nation's history. USDA reports a reduction of 271 rural rental properties in just the past year, representing a loss of 4,220 much needed apartment units.

Housing is particularly difficult to develop or preserve in the portions of rural America that are classified as "Persistent Poverty"—defined by the Economic Research Service at USDA as those counties where 20% or more of their population was poor over the last 30 years. Of the 353 persistently poor counties, 301 or an astounding 85.3% are rural counties.[2] The demand is there and the need is there, but too many Americans are simply unable to afford basic decent housing. Areas that are particularly persistently poor include middle Appalachia, the lower Mississippi Delta, the southern Black Belt, border Colonias areas, and Native American lands. In fact, 21 million people live in persistent poverty counties.[3] High poverty counties with 17% or more living in poverty essentially exist in nearly every state.

Housing instability has well-documented effects on the education and health of this country's greatest asset—our children. Neither the private nor the public sector can produce affordable rural housing independently of the other; it must be a collaborative partnership.

The Affordable Housing Credit—An Essential Tool

The low-income housing tax credit ("Affordable Housing Credit") is a model of success, implemented through a federal-state model that utilizes federal economies of scale, state and local decision making, and partnership with the private non-profit and for-profit sectors to deliver new and rehabilitated quality housing to elderly and low income Americans. It has been noted that 90% of affordable housing constructed in recent years is done in partnership with the Affordable Housing Credit and has provided more than 2.5 million rental units since its inception.[4] The Affordable Housing Credit is likewise an essential tool for preservation of aging affordable housing that exist in high cost areas, or have been starved from the necessary capital to modernize.

When the Affordable 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 fund-

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[1] NRHC, "A Review of Federal Rural Rental Housing Programs," *Policy and Practices;* April 2017.
[2] *Id.*
[3] HAC Rural Research Brief, June 2012.
[4] *New York Times,* "A Tax Credit Worth Preserving," December 20, 2012.

ing 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. Affordable Housing Credit investors are strongly motivated to require project owners and managers to consistently comply with housing requirements, even before government inspections.

CARH Strongly Supports S. 548, Housing Bonds and Other Proposals

CARH strongly supports S. 548, the Affordable Housing Credit Improvement Act, as we agree with the bipartisan expression of concern and support to find solutions to the affordable housing crisis. It has always been difficult to attract investors to transactions in rural areas. While land costs in rural markets are typically less than urban areas, there are offsetting concerns caused by greater transportation costs and fewer vendors from which to choose. Housing assistance programs are generally geared toward urban areas, with programs like the Community Development Block Grant largely unavailable to rural areas. This is why the Affordable Housing Credit has been even more important to rural areas—because it is truly the single largest path to preserving existing housing and constructing new affordable housing. S. 548 would help facilitate preservation and new construction of this much needed affordable housing. Some of the key points we see in S. 548 are outlined below:

- Rural areas often compete with larger urban properties for the Affordable Housing Credit. This competition has grown intense and seems to be crowding out rural needs. In fact, between 1995 and 2009, only 9 percent of Affordable Housing Credit financed rental properties were in rural markets utilizing Section 515 funding.[5] Congress has not increased Affordable Housing Credit authority in 17 years. This legislation would increase the Affordable Housing Credit by at least 50 percent. Such an expansion would support the preservation and construction of 350,000 to 400,000 additional affordable apartments over a 10-year period, undoubtedly many in rural areas.
- S. 548 would permit income averaging in Housing Credit properties. *However, to be fully effective in rural areas, there should be an added provision instructing Rural Development to permit income averaging in Section 514/515 rural rental multifamily programs. Currently, Rural Development does not permit such practices under their statutory authorities.* Rents that households with incomes above 60% AMI (up to the max of 80% AMI) could afford have the potential to offset lower rents than households below 40% or even 30% AMI could afford, allowing developments to maintain financial feasibility while providing a deeper level of affordability. Furthermore, the diversification of rents within a given property would broaden the marketability, providing more flexibility and responsiveness to local needs. As such, projects with tiered rents would be more attractive to Affordable Housing Credit investors, potentially attracting more capital to rural affordable housing projects.
- The legislation would base income limits in rural properties on the greater of area median income or the national non-metropolitan median income. This would make Housing Bond financed developments more feasible in rural areas while streamlining program rules. *Housing Bonds have been an important tool for preserving and financing multiple properties into one transaction, capitalizing on the economies of scale. Many existing small 515 properties have been preserved as part of a portfolio financing that otherwise would not have a means for recapitalization and modernization.*
- The bill simplifies the current Affordable Housing Credit student rule and better achieves the intended targeting by replacing it with a new rule that is aligned with the Department of Housing and Urban Development's ("HUD") rule, which would simplify multiple subsidy compliance. Many rural residents seek to re-tool and to improve their employment status by pursuing university, college, community college and vocational school. CARH has recognized this need for skilled training and has created a scholarship fund for residents of affordable housing to assist with college and vocational school costs.
- The proposed legislation would provide for a fixed floor rate for acquisition credits at no less than 4 percent and should similarly remove the uncertainty and financial complexity of the floating rate system, simplify state administration,

[5] Jill Khadduri, Carissa Climaco, and Kimberly Burnett, "What Happens to Low-Income Housing Tax Credit Properties at Year 15 and Beyond," U.S. Department of Housing and Urban Development, August 2012.

and facilitate preservation of affordable housing at little or no cost to the federal government. Acquisition credits are currently set by the floating rate system just like new construction and substantial rehab credits were before the Housing and Economic Recovery Act (HERA) of 2008. A floating rate makes it very difficult to plan and assemble capital necessary for development. This fixed rate would potentially provide additional private capital to preservation transactions, greatly reducing the funding gap now being created from reduced credit pricing provided by investors.

- S. 548 provides up to a 50 percent basis boost of Affordable Housing Credits for developments serving extremely low-income families and individuals in at least 20 percent of the units, as well as allowing states to provide up to a 30 percent basis boost for Housing Bond-financed properties. This provision will provide parity between Housing Bond-financed developments and those that use allocated Housing Credits. As noted above, rural properties tend to serve very low and extremely low income persons with the average annual household income in unsubsidized Section 515 properties of only $12,960.

It is also important to note that Affordable Housing Credit properties can improve neighborhoods and property values. This very positive effect was discussed in "A Surprising Way to Increase Property Values: Build Affordable Housing," *Washington Post,* July 6, 2017 by Tracy Jan, which pointed to the November 2016 study by Rebecca Diamond and Tim McQuade at Stanford University. Their conclusion, based on their research, is that the Affordable Housing Tax Credit revitalizes low-income neighborhoods, increases housing prices 6.5%, lowers crime rates and attracts racially and income diverse populations.

Other Affordable Housing Credit Proposals

While not part of S. 548, it is worth noting that rural housing providers and developers have discussed additional ways to potentially bring in capital with the Affordable Housing Credit in rural areas:

(1) Affordable Housing Credits should be available to S Corporations, Limited Liability Companies, and closely-held C Corporations to the same degree Affordable Housing Credits are currently available to widely held C Corporations, to offset revenue with Affordable Housing Credits that would otherwise be taxable when passed through to the owners of these businesses. The Federal Internal Revenue Code restricts potential Affordable Housing Credit investors through passive loss limitations, limiting the ability of associations that are not real estate professionals from investing. To ensure high standards of oversight, such entities should have at least $10 million in annual gross receipts, be formed for reasons other than just avoidance of Federal income tax, and have an expectation of reasonable asset management. This proposal is aimed at accessing substantial investment capital available from sophisticated financial institutions and businesses that happen not to be widely-held Schedule C corporations. Indeed, this change would allow the 1,954 commercial banks and 55 savings institutions to invest in low-income housing tax credits in the communities in which they operate.

(2) Another barrier to preservation and tenant protection is an unintended one, resulting from a conflict between the tax code and market forces. Almost all Rural Development (RD) Section 515 properties were constructed through limited partnership arrangements whose structure makes it exceedingly difficult to introduce new capital into these properties, either through additional capital contributions from current owners or through the transfer of such properties to new owners. Most were also created before the 1986 Tax Reform Act. Because rent restrictions limit cash flow, new capital contributions would only generate additional passive losses that cannot be utilized by current investors. Yet, if the current owners sell a property it is almost impossible to generate sufficient cash to pay off the steep recapture taxes that would be owed. The best alternative for current limited partners is to hold the investment until death, enabling their heirs to acquire the property with a stepped up basis that avoids any recapture taxes. While that is a perfectly rational decision at the partner level, it is not consistent with sound housing policy and risks imposing far higher costs on the federal government, as these capital-starved properties either continue to deteriorate into substandard housing or are sold off as market rate housing as a means of generating cash on the sale to pay exit taxes for investors.

A modest change in the tax rules must be adopted to preserve the stock of Section 515 affordable housing. This could be accomplished by waiving the depreciation recapture tax liability where investors sell their property to new owners who agree to invest new capital in the property and to preserve it as affordable housing for another 30 years. Since very few investors subject themselves to recapture taxes today, opting instead to pass the property to their heirs at a stepped-up basis, the cost of this proposal should be modest while the benefit to the federal government of extending the affordability restrictions will be far-reaching. During the 111th Congress, legislation was introduced, H.R. 2887, the Affordable Housing Tax Relief Act of 2009, which if enacted, would have embodied this concept.

Other Essential Tools Needed With the Affordable Housing Credit

Rural housing is dependent on several sources of funding for construction and preservation of the existing housing stock. While much focus deservedly is on the Affordable Housing Credit, there needs to be a tool box with a variety of tools. Just like needs and resources can differ in different places, there must be a broad set of tools to mix and match to get the most effective solution.

RD has the Section 538 guaranteed loan program, HUD has the HOME program, both widely used in rural rental housing. But the existing portfolio under stress is the Section 515 Rural Multifamily Housing and Section 514 Farm Labor Multifamily properties which are a lynchpin for affordable rural housing. These 514/515 programs supply mortgages to more than 14,000 apartment communities. However, RD calculates 74 projects with 1,788 units are maturing out of the program *each* year over the next 12 years. This not only means a loss to the program, the project based Section 521 rental assistance ("RA") provided to the tenant is also lost when the Section 514/515 mortgage matures because these programs are tied together by statute.

The RA program has been adjusted solely through the appropriations process for about two decades. While we appreciate the hard work of appropriators in both the House and Senate, we believe it is time for a thorough review through the Congressional authorizing committees (the House Financial Services and the Senate Banking, Housing and Urban Affairs Committees), and that hearings on the Agency programs and proposals should be a priority for the Congress.

Congressional review should also include program updates such as the ability to utilize flexible rents and longer term rent incentives to more efficiently occupy vacant units at turnover. Another simple improvement to make RA more efficient is to provide 20 year contracts, subject to annual appropriations. Not only would this reduce the costs associated with reprocessing contracts on an annual basis without increased appropriations, it would also create a more reliable subsidy. This will help attract potential investors and lenders to Section 514 and 515 properties. Most of these properties are 35+ years old and are ready for modernization.

Affordable Rural Housing Is Part of a Healthy Economy and Provides Jobs

In 2002, RD estimated that 4,250 Section 515 properties with 85,000 units "will physically deteriorate to the point of being unsafe or unsanitary within the next 5 years." At that time, RD estimated it would need $850 million to maintain just this portion of the portfolio, and that as much as $3.2 billion will be required for portfolio-wide rehabilitation. Little progress has been made since 2002. Adjusted for inflation, the 2002 $3.2 billion estimate is now approximately $5.5 billion. Due to RD's policies over the past 6 years, the RD multifamily portfolio is under 15,000 projects for the first time in 20 years. In 2016, RD contracted for its own study, which confirmed the existence of significant deferred maintenance. At this rate of lost properties, we encourage preservation prioritization of existing properties ahead of new construction, as it is much more cost effective to complete a substantial rehabilitation compared to the cost of building new.

Providing for this portfolio will not only care for the extremely low income families and elderly residents, but will improve infrastructure and create jobs. For each 100 apartment units, 116 jobs (plus an additional 32 recurring local jobs) are created, generating more than $3.3 million in federal, state and local revenue. Moreover, many rural areas are facing worker shortages due to the lack of available affordable housing near rural jobs.

In conclusion, affordable housing plays a critical role in rural communities across America. There is not a single solution to this national affordable housing crisis. It takes a village. And thus, we encourage and support the continued Congressional efforts to do your part in prioritizing the protection of the essential housing stock in rural areas.

Thank you for this opportunity to provide written testimony to the Committee.

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Statement of Sunia Zaterman, Executive Director

The Council of Large Public Housing Authorities (CLPHA) is pleased to submit the following statement for the record to the Senate Finance Committee and appreciates the opportunity to weigh in on this important topic.

CLPHA is a non-profit organization committed to preserving, improving, and expanding the availability of housing opportunities for low-income, elderly, and disabled individuals and families. CLPHA's members comprise more than 70 of the largest housing authorities, in most major metropolitan areas in the United States These agencies act as both housing providers and community developers, effectively serving over 1 million households, managing almost half of the nation's multi-billion dollar public housing stock, and administering over one-quarter of the Section 8 Housing Choice Voucher program.

We are grateful to the Committee for calling attention to the deepening affordable housing crisis facing many American families. We applaud Finance Committee Chairman Orrin Hatch's and Committee member Senator Maria Cantwell's leadership in championing legislation to expand and strengthen the Low-Income Housing Tax Credit (LIHTC), our nation's primary tool for encouraging private investment in affordable rental housing.

America's affordable rental housing crisis is growing.

A lack of stable, affordable housing is one of the biggest threats to economic success that any American can face. Stagnating wages along with declines in homeownership rates have exacerbated the demand for rental housing to its highest level since the mid-1960s, driving up rents, especially in areas with low vacancies. Stable, affordable housing also plays a crucial role in improving outcomes for low-income families across sectors like health and education. Research has shown that housing stability is foundational to academic achievement for children; securing and maintaining employment for adults; and accessing health and prevention services.

Currently, there are more than 11 million renter households—approximately one out of every four—who spend more than half of their income on rent. This leaves little room for other necessary expenses like transportation, food, medical bills, and education. Additionally, low-income renters that spend more than 50 percent of their rent on housing are at increased risk of becoming homeless. According to the Harvard University Joint Center for Housing Studies, the number of households spending more than 50 percent of their income on rent is expected to rise at least 11 percent from 11.8 million to 13.1 million by 2025. This is coupled with the fact that the affordable housing supply is not keeping up with the demand. For every 100 extremely low-income (ELI) renter households in 2015, there are only 31 available and affordable units, amounting to a shortfall of 7.2 million available and affordable homes. This trend is further confirmed in HUD's recently released *Worst Case Housing Needs 2017 Report to Congress* which found that "despite continued signs of a strengthening national economy . . . severe housing problems are on the rise."

Public housing and the Low-Income Housing Tax Credit are vital tools to address the nation's affordable housing needs and bolster economic activity.

As one of the nation's largest sources of affordable housing, public housing plays a central role in providing stable housing to America's most vulnerable citizens; connecting low-income workers to economic opportunities; and spurring regional job creation and economic growth. A multibillion dollar public asset for local communities; public housing is home to over 1.1 million low-income families, including 800,000 children. Over half of public housing households are elderly or disabled, and more than half of non-elderly, non-disabled households consist of working families.

Despite the growing need for and proven benefits of affordable housing, federal appropriations for the maintenance and capital repair of public housing has declined severely over the past several years, making it impossible even to keep up with the new repair needs that arise each year for public housing properties. This adds to the backlog of capital needs, which currently stands at over $26 billion nationwide. Increased disinvestment has led to the substantial loss of over 300,000 public housing units since 1990, and approximately 12,000 units each year, resulting in fewer and fewer people served by the program.

The Low-Income Housing Tax Credit (LIHTC) program, authorized in 1986, has become the nation's primary source of funds for the production and rehabilitation of affordable housing. As a model private-public partnership program, LIHTC has employed private sector resources, market forces, and state-level administration to finance more than 3 million affordable apartments—nearly one-third of the entire U.S. inventory. Particularly as federal appropriations for the public housing capital funds have decreased, LIHTC has proven to be an essential tool in leveraging private investment to redevelop distressed public housing across the country.

Since the federal Capital Fund dollars appropriated are insufficient to redevelop public housing, housing authorities heavily depend upon tax credit investment to improve and rehabilitate their properties. Important platforms such as the Choice Neighborhoods Initiative (CNI), the Moving to Work (MTW) program, mixed financing, and most recently, the Rental Assistance Demonstration (RAD) program, have been the only mechanisms available to housing authorities to partner with non-profit and private developers in using tax credits to revitalize much-needed public housing properties. Through these platforms, housing authorities are able to combine scarce public housing capital funding with private and other public resources, including tax credits, in a layered financing process in order to rehabilitate properties and revitalize communities. Under the RAD program, housing authorities have been able to rehabilitate and convert over 61,000 public housing units to date, leveraging approximately $4 billion in new private and public funds, which equates to a 9:1 ratio of private dollars to public housing dollars.

Additionally, the revitalization of public housing provides positive economic benefits to families and communities. Research has shown that for every $1 spent on rehabilitation funding for public housing, an additional $2.12 is generated in regional economic activity, contributing to local tax revenue and supporting job creation and retention. Per $1 million spent, public housing outpaces other sectors when it comes to job creation and generating economic activity.

However, a lack of affordable housing has been shown to negatively impact economies. Researchers estimate that the growth in GDP from 1964–2009 would have been 13.5 percent higher if families had better access to affordable housing. This would have led to a $1.7 trillion increase in total income, or $8,775 in additional wages per worker. Overall, the shortage of affordable housing in major metropolitan areas costs the American economy about $2 trillion a year in lower wages and productivity.

Congress should expand and strengthen the Low-Income Housing Tax Credit.

The LIHTC program continues to be an extremely important preservation tool for public housing and for the overall production and rehabilitation of affordable housing. CLPHA strongly supports the efforts of Senator Hatch and Senator Cantwell and others on the Committee to expand and strengthen the LIHTC program. Housing authorities have a long history of leveraging private equity through LIHTCs to fill the funding gap created by decreased federal appropriations. Housing authorities have acknowledged that without the LIHTC program, the preservation of their public housing stock would not be possible.

To meaningfully grow our economy and address our nation's growing affordable housing needs through tax reform, we urge the Committee to support Senator Cantwell and Senate Finance Committee Chairman Hatch's Affordable Housing Credit Improvement Act of 2017 (S. 548). This legislation would increase LIHTC allocation authority by 50 percent phased in over 5 years, and enact roughly two dozen changes to strengthen the program by streamlining program rules, improving flexibility, and enabling the program to serve a wider array of local needs.

CLPHA is well aware that competition for more valuable 9% LIHTC is fierce in many states and that there have been concerns within the affordable housing community about increased demand from the public housing portfolio. Increasing the allocation authority by 50 percent would support the preservation and construction of up to 400,000 additional affordable apartments over a 10-year period, including vital public housing units that are at-risk. Additionally, the legislation allows for an increased basis boost for projects serving extremely low-income households. This would be particularly beneficial to housing authorities, as 75% of public housing residents are extremely-low income.

The legislation would also generate a host of benefits for local communities, including increased local tax revenue, local income, and jobs, all benefits that meet the Committee's goals for tax reform. An investment in LIHTC is an investment in individuals, local communities, and the economy. CLPHA applauds the leadership the Senate Finance Committee has shown in support of LIHTC to date and urges the Committee to expand and strengthen the program.

Thank you for the opportunity to submit our views for the record, and we ask that you give them your full consideration.

LOCAL INITIATIVES SUPPORT CORPORATION (LISC)
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The Local Initiatives Support Corporation (LISC) is pleased to provide a statement for the record with respect to the Committee's hearing on "America's Affordable Housing Crisis: Challenges and Solutions," held on August 1, 2017.

As one of the largest national nonprofit housing and community development organizations in the country, LISC often relies upon public-private partnerships to engage in the type of comprehensive community development work that is needed in low-income communities. The Low-Income Housing Tax Credit (Housing Credit) is the single most important federal resource available to encourage private sector investments in the development and rehabilitation of affordable housing for low, very-low and extremely low-income renter households. As discussed further below, Congress must act to preserve and strengthen this successful program; and should also consider enacting a new tax incentive, the Neighborhood Homes Tax Credit, to spur investments in single family homes in communities characterized by high rates of vacancy and low property values.

Background on LISC

Established in 1979, LISC is a national non-profit Community Development Financial Institution (CDFI) that is dedicated to helping community residents transform distressed neighborhoods into healthy and sustainable communities of choice and opportunity—good places to work, do business and raise children. LISC mobilizes corporate, government and philanthropic support to provide local community development organizations with loans, grants and equity investments; technical and management assistance; and policy support.

LISC has local programs in 31 cities, and partners with 77 different organizations serving over 2,000 rural counties in 44 states throughout the country. LISC focuses its activities across five strategic community development goals:

- Expanding investment in housing and other real estate;
- Increasing family income and wealth;
- Stimulating economic development;
- Improving access to quality education; and
- Supporting healthy environments and lifestyles.

Background on the Housing Credit

Supported on a broad bipartisan basis, the Housing Credit was enacted as part of the Tax Reform Act of 1986, the last major overhaul of the tax code. The Housing Credits are allocated to the states through a formula allocation, and then awarded through competition to developers of qualified projects. Developers sell the property to investors to raise equity capital for construction of their projects, thus reducing the debt service and allowing the projects to provide affordable rents to low-income families. Investors claim the credits over a 10-year period, and are at risk of tax credit recapture for an additional 5 years if the property does not remain in compliance with the rules.

To date, the Housing Credit has financed the development of approximately 3 million affordable homes across the nation with projects in every state, leveraged more than $100 billion in private capital, and helped to create well over 3 million jobs in the construction and property management industries.[1] It is the country's most successful affordable housing production program.

LISC, through its subsidiary the National Equity Fund (NEF), is one of the nation's largest syndicators of Housing Credits. To date, NEF has invested $13.3 billion in close to 2,500 housing properties, creating approximately 159,000 affordable homes for low-income families in 46 states, and spurring the creation of an estimated 194,000 jobs. In recent years, LISC has been able to use the credit to support disaster recovery efforts, a veterans housing initiative, and an initiative to link housing to critical community health services.

Successful Attributes of the Housing Credits

The Housing Credit has achieved tremendous success in financing affordable housing in rural, urban and suburban communities throughout the country. Some of the more noteworthy characteristics that have led to the success of these credits include:

1. **The credits correct market failures.** The potential financial return achieved via the tax credit enables investment in projects that would not otherwise produce profitable returns. This is clearly evidenced with respect to Housing Credit investments, where it's been demonstrated that a typical housing project would have to reduce its construction costs by 72 percent to be able to serve a low-income family at an affordable rent.[2]
2. **The credits are responsive to locally determined needs.** The Housing Credits are allocated by state housing finance agencies, which determine the state's affordable housing priorities in annual funding rounds. Based on the needs within the states and localities, priorities in any given year could include elderly housing, veterans housing, units serving homeless families, workforce housing, rural housing, etc.
3. **The competition for credits produces better outcomes.** Applications for the Housing Credit typically outpace availability by 3 to 1, and in some states this ratio is as high as 7 to 1. This competition drives applicants to achieve better outcomes than are minimally required in program regulations. Most notably:
    - Housing Credit properties must satisfy affordability requirements for 30 years after completion, but state allocating agencies often require much longer affordability periods as a condition of allocation.
    - Housing Credit units must be affordable to persons making less than 60 percent of area median income (AMI), but states set higher goals to achieve deeper income targeting. As a result, the most recent Department of Housing and Urban Development (HUD) data indicate that 48 percent of Housing Credit units are occupied by families making less than 30 percent of AMI and 82 percent are occupied by families making less than 50 percent of AMI.[3]
4. **The tax credit structure allows for more efficient program administration.** Investors—with their own capital at risk—impose underwriting and asset management oversight. The investor due diligence leads to a more robust and efficient compliance monitoring system, and results in projects that are financially strong. For instance, Housing Credit properties far outperform other real estate classes, with occupancy rates topping 96 percent nationwide and a cumulative foreclosure rate of just 0.66 percent over the program's history.[4]

    In addition, investors and developers—not taxpayers—assume the financial risks of these projects. If projects are not in compliance with statutory requirements, tax credits are forfeited back to the Treasury. In the case of the Housing Credit, investors cannot even begin claiming credits until the apartments are occupied by low-income families at affordable rents. This is in stark contrast to most federal grant-making programs, in which grants are advanced and an agency must seek a return of funds (often after they are already spent) in the case of program noncompliance.

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[1] "Low-Income Housing Tax Credit Impacts in the United States," Affordable Rental Housing ACTION Coalition.

[2] Harvard University Joint Center for Housing Studies (JCHS), "America's Rental Housing," (2011).

[3] U.S. Department of Housing and Urban Development, Office of Policy Development and Research, "Data on Tenants in LIHTC Units as of December 31, 2013" (2016).

[4] "The Low-Income Housing Tax Credit at Year 30: Recent Investment Performance (2013–2014)."

5. **The credits provide a great return on investment for the Federal government.** The National Association of Homebuilders estimates that, on an annual basis, the Housing Credit produces 95,000 new, full-time jobs, adds $6.8 billion into the economy, and generates approximately $2 billion in federal, state and local tax revenues.

Uniqueness Within the Tax Code

The Housing Credit is distinct from almost every other type of tax credit, in at least two critical ways:

1. **It spurs activity that would not occur but for the tax incentive.** Most federal tax benefits reward business behavior that already directly aligns with their operational interests. While these tax benefits may have some effect on business behavior, it is likely on the margins of activities in which they are already likely to engage even in the absence of the tax incentive. Conversely, the Housing Credit directs investments to activities in which companies would *not* otherwise invest in because: (a) it does not further their normal business operations; and/or (b) if not for the benefits provided in the tax code, they would not be profitable for the company. So if these credits were to disappear, so too would the investments.
2. **The benefits of the credit extend far beyond the investors to fulfill a broader public need.** The Housing Credit fulfills a fundamental public purpose that most other credits do not. As with all tax credits and deductions contained within the tax code, the entity claiming the Housing Credit does achieve a financial benefit in the form of reduced tax payments. However, the Housing Credit is among one of very few tax benefits provided in the corporate tax code that focus exclusively on improving the lives of low-income persons and low income communities (the New Markets Tax Credit being the other most notable one). In other words, unlike most other provisions in the tax code which solely benefit a corporation's bottom line, the ultimate beneficiaries of these credits are the end users: the low-income family that is paying significantly below-market rent, thus freeing up more resources for the family to cover other critical expenses and to save for education, retirement, homeownership or other activities that will better enable the family to escape the cycle of poverty.

Priorities for Tax Reform

Protect and expand the Housing Credit. The Housing Credit is a permanent part of the tax code, enacted in 1986 as part of the last major tax reform effort. However, despite its longevity and its track record of success, there may be some who would seek to scale back or even eliminate this credit to help offset a reduction to the overall corporate tax rate. To do so would put the future of the country's strongest program for affordable housing development in great jeopardy at a time when demand for affordable housing continues to increase.

It is noteworthy that the Bipartisan Policy Center's Housing Commission, which was co-chaired by two former Secretaries of HUD (one a Democrat and one a Republican) and two former Senators (one a Democrat and one a Republican), released a report in 2013 not only citing the critical role of the Housing Credit in supporting affordable housing, but also calling for an *expansion* of the Housing Credit by 50 percent over current funding levels. While LISC recognizes the importance of fiscal restraint as part of the tax reform exercise, we also believe that tax reform presents an opportunity for reflection on what truly has worked in the tax code, and every consideration should be given to expanding this vital initiative.

In considering additional measures to protect and strengthen the Housing Credit, the best starting point is The Affordable Housing Credit Improvement Act (S. 548), the bi-partisan legislation introduced by Senator Hatch and Senator Cantwell which would, among other things:

- Increase the formula for allocating the credit by 50% over 5 years;
- Streamline program requirements and provide states with additional flexibility;
- Facilitate Housing Credit development in challenging markets, including rural and Native American communities;
- Increase the Housing Credit's ability to serve extremely low income populations;
- Better support the preservation of existing affordable housing; and
- Enhance the "4% credit" and multifamily housing bond portion of the program.

In addition, as the Committee undertakes efforts to reform the broader tax code, it needs to consider making adjustments to the applicable housing credit rate (*i.e.,* the 9% or 4% rate) to offset the impact that a lower corporate tax rate and/or changes to depreciation would have on utilization of the Housing Credit. It also needs to retain the multifamily housing private activity bonds, which are used in conjunction with the 4% credit and account for about 40% of all Housing Credit production annually.

Create a new Neighborhood Homes Tax Credit. LISC, along with many other organizations, is calling for the creation of a Neighborhood Homes Tax Credit (NHTC). The NHTC is designed to attract private capital to support investment in single family homes in communities where the costs of developing and rehabilitating homes for sale exceed the appraised value of the home. The NHTC would provide the developer or investor with a tax credit to cover this "appraisal gap." The tax credit would work as follows:

- State allocating agencies (most likely the state Housing Finance Agencies) would be allocated a new tax credit authority and/or be given the flexibility to convert unused private activity bond authority or mortgage credit certificate authority into NHTCs.
- The credits would be awarded by the state agencies to eligible entities through an annual competition. The eligible entity would identify a strategy for developing or rehabilitating properties in eligible communities, either for new homes, existing owner-occupied homes, or for homes that are vacant and will be brought to market. The eligible entities could be developers or financial institutions, including non-profit CDF is or other entities looking to capitalize a loan pool.
- States would allocate only the tax credits reasonably needed for financial feasibility, determined both at the time of application and again when homes are sold or owner-occupied rehabilitations are completed.
- Program limitations would ensure the credit is benefitting the right projects and communities.
  - The maximum value of the credit would be 35% of construction, substantial rehabilitation, and building acquisition and demolition costs.
  - The maximum cost basis for calculating the tax credits could not exceed the national median existing home sales price or four times the area MFI, whichever is higher.
  - The credits would generally only be available to support homeownership by low income and middle-income homebuyers.
  - Only those neighborhoods characterized by some combination of high poverty, low median family income and low home values would be eligible for investments. In addition, the states would be required to further define neighborhood eligibility requirements to ensure that the program is *not* targeting neighborhoods where there has been a recent influx of investment marked by improving property values, higher rents or a displacement of lower-income families.

The NHTC addresses the need for neighborhood revitalization in communities hit with blocks of home foreclosures and vacant properties. Vacant properties inflict heavy costs on American communities: blight, crime, lowered home values, and decreased property tax revenue. There are mounting costs and difficulties associated with vacant and abandoned properties, especially when concentrated within neighborhoods. There are negative spillover effects ranging from crime and safety to reduced property values and increased costs for municipal governments. RealtyTrac found that 142,462 U.S. properties in the foreclosure process were vacant, representing 25 percent of all properties in the foreclosure process. The states with the most owner-vacated foreclosures were Florida with 35,903 (25 percent of the national total), New Jersey (17,983), New York (16,777), Illinois (9,358), and Ohio (7,360).[5]

Part of the reason property abandonment becomes contagious is because it lowers nearby home values making it more difficult to attract mortgage capital to an area. This makes it harder for people to sell their homes, in turn causing lenders to lower appraisals or to deny loans entirely. Vacant properties deteriorate and the underlying value of the property declines, causing neighboring property values to also decline.[6] These neighborhoods are trapped in a cycle where low property values prevent the construction of new homes and the renovation of attractive of existing homes, and where the absence of these investments keeps property values unsus-

[5] "One in Four U.S. Foreclosures are 'Zombies' Vacated by Homeowner, Not Yet Repossessed by Foreclosing Lender." RealtyTrac. Feb. 5, 2015.
[6] *http://www.communityprogress.net/filebin/CCP_BaltimoreTASP_Final_Report_102616.pdf.*

tainably low. Declining homeownership rates, property abandonment, the erosion of family assets, and concentrated poverty are too often the result. Studies attempting to quantify the effect of foreclosures on surrounding property values find that foreclosures depressed the sales prices of nearby homes by as little as 0.9 percent to as much as 8.7 percent.[7]

The NHTC would provide an effective and necessary tool for revitalizing blighted neighborhoods. As noted above, the NHTC would fill the gap between cost of construction and the appraised value of the property, with the private market bearing construction and marketing risks—much as is done with the Housing Credit. However, the Housing Credit, which was designed to create affordable rental housing for low- and very-low income families, cannot readily be utilized to support homeownership housing. And while tax exempt private activity bonds and mortgage credit certificates (MCCs) do support homebuyers by reducing mortgage interest costs, these incentives cannot fill the gap between development or renovation costs and appraised home values.

Only those neighborhoods characterized by some combination of high poverty, low median family income, and low home values would be eligible for NHTC investments. In these neighborhoods, where inventory is high and appraisals are low, it is simply not possible for the private sector to invest in these properties without additional subsidy. By creating this incentive through the tax code, financial companies will now be able to participate in the recovery of these communities.

Although legislation authorizing the NHTC has not yet been introduced in the 115th Congress, similar legislation was proposed by the George W. Bush administration and was introduced in the 108th Congress and received tremendous bi-partisan support. The Senate legislation (S. 875) had 46 co-sponsors, and the House legislation (H.R. 839, introduced by then Congressman Portman and Congressman Cardin) had 304 co-sponsors.

Conclusion

The Housing Credit has a proven track record of success in producing affordable housing, is a unique fixture within the tax code that cannot readily be replaced by other public or private sources of capital. The corporate investors who will benefit from lower tax rates will not be negatively impacted by the elimination of these tax incentives, but lower income individuals and communities will. The scaling back or loss of this tax incentive would be felt immediately and could be irreversible. To this end, it should be the priority of Congress to preserve and strengthen these invaluable credits, and to support a new Neighborhood Homes Tax Credit to provide a needed incentive to spur homeownership in many of these same blighted communities.

Thank you for your consideration of our comments.

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Chairman Hatch, Ranking Member Wyden, and Members of the Committee, thank you for holding today's hearing on the pressing need for more affordable housing in communities across our country.

LOCUS is a national coalition of real estate developers and investors who advocate for sustainable, equitable, walkable development in America's metropolitan areas. Our members are among our nation's leading developers—representing billions of dollars of investment annually—and they see every day the pent-up demand for attainable residential and commercial development in communities with a great sense of place.

As you know, the primary policy for promoting the construction of affordable housing today is the Low-Income Housing Tax Credit (LIHTC). Many of our members

[7] W. Scott Frame. "Estimating the Effect of Mortgage Foreclosures on Nearby Property Values: A Critical Review of the Literature." Federal Reserve Bank of Atlanta, Economic Review, Nov. 3, 2010.

use this vital tool in their work and LOCUS strongly supports LIHTC. As evidenced by the unmet need though, we believe we can do more.

First, LOCUS supports strengthening the existing LIHTC program. Legislation introduced by Senator Cantwell and Chairman Hatch, the Affordable Housing Credit Improvement Act of 2017 (S. 548), would increase LIHTC allocations by 50% and gives states and developers more flexibility to use credits in ways that reflect their local markets.

Second, Ranking Member Wyden's proposal to create a Middle-Income Housing Tax Credit (MIHTC) would help fill a critical gap between LIHTC-eligible projects and truly attainable housing. The reality is that many families that make too much for LIHTC eligible projects still struggle to find affordable housing. In addition, both the Cantwell Hatch bill and the Wyden proposal would promote more of the mixed-income housing that our members have seen is crucial for building vibrant communities.

Finally, we also believe tax reform presents a unique opportunity to create an outcome based framework that encourages greater private capital investment in attainable housing and "making doing the right thing profitable" during neighborhood revitalization projects.

Even though rehabilitating existing buildings and neighborhoods can increase the local tax base and save municipalities money by reusing and improving valuable public infrastructure, decades worth of deferred infrastructure maintenance can make neighborhood redevelopment projects cost-prohibitive.

LOCUS believes the most effective way to accomplish this is to convert the existing Rehabilitation Tax Credit under Section 47 into a Neighborhood Rehabilitation and Investment Credit.

Under the LOCUS proposal, the historic credit would not change, however the Rehabilitation Tax Credit in Section 47 of the Internal Revenue Code would be converted from a 10 percent credit into a scalable and in some cases refundable credit; broadening eligibility to include redevelopment and public infrastructure costs beyond those associated with a specific building; making residential buildings eligible for the credit; rewarding projects that include greater affordable housing and community services; and changing the age criteria so that any building over 50 years old would be eligible for the credit. Overall, credit would be applied to an entire redevelopment project instead of just an individual building, including adjacent new construction, infrastructure and community services.

In its current form, the Rehabilitation Credit can only be claimed for buildings built before 1936, making a huge amount of development projects ineligible. In addition, the credit can only be claimed for individual buildings and not for larger projects. For many developers, this makes the credit too cumbersome to use.

And finally, the credit right now can only be used for commercial development. This excludes residential properties, which could also obviously benefit from the credit, and also makes using the credit on mixed-use development—where part of the property is eligible and part is not—extremely challenging.

Under the LOCUS proposal, there will be an incentive for all developers and investors to incorporate fiscally responsible and economically enhancing place-making principals of rehabilitation, transit orientation, mixed-use, affordability and walkability into their plans.

We believe this proposal is consistent with tax reform principles of simplification, modernization and pro-growth job creation. But we also understand the need for trade-offs in tax reform. LOCUS has also endorsed reforms to elements of the federal tax treatment of real estate that have encouraged sprawling, drivable development over dense, walkable communities. For instance, we support further limitations on the mortgage interest deduction and the exclusion of gains from the sale of a primary residence.

Thank you for your consideration, and we look forward to working with you and your staff.

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August 7, 2017

Chairman Orrin Hatch	Ranking Member Ron Wyden
Senate Finance Committee	Senate Finance Committee
U.S. Congress	U.S. Congress

Dear Chairman Hatch and Ranking Member Wyden,

On behalf of the National Affordable Housing Management Association (NAHMA), we greatly appreciate the opportunity to provide this Statement for the Record to the Senate Finance Committee for the hearing, "America's Affordable Housing Crisis: Challenges and Solutions," held on August 1, 2017. NAHMA would like to share our perspectives about tax reform and the importance of the Low-Income Housing Tax Credit (Housing Credit) with regards to affordable multifamily housing programs, which are critical to providing quality rental housing to families in need and to improving economic opportunity for all Americans. As a member of A Call To Invest in Our Neighborhoods (ACTION) Campaign, representing over 2,000 national, state, and local organizations and businesses, NAHMA submits the subsequent industry recommendations on how Congress can utilize tax reform to further strengthen the Housing Credit.

NAHMA is the leading voice for affordable housing management, advocating on behalf of multifamily property managers and owners whose mission is to provide quality affordable housing. NAHMA supports legislative and regulatory policy that promotes the development and preservation of decent and safe affordable housing, is a vital resource for technical education and information and fosters strategic relations between government and industry. NAHMA's membership represents 75 percent of the affordable housing management industry, and includes its most distinguished multifamily owners and management companies.

We are especially grateful for the leadership of Finance Committee Chairman Hatch, Committee Ranking Member Wyden, and Committee Member Cantwell in championing legislation to expand and strengthen the Housing Credit, our nation's primary tool for encouraging private investment in affordable rental housing. We strongly urge the Committee to advance the Affordable Housing Credit Improvement Act of 2017 (S. 548) this year, and to protect both the Housing Credit and multifamily Housing Bonds—a central component of the Housing Credit program—as part of any tax reform effort considered by Congress.

The Housing Credit Has a Remarkable Track Record

President Reagan and the Congress showed remarkable foresight when they created the Housing Credit as part of the Tax Reform Act of 1986. The Housing Credit is now our most successful tool for encouraging private investment in the production and preservation of affordable rental housing, with a proven track record of creating jobs and stimulating local economies. For over 30 years, the Housing Credit has been a model public-private partnership program, bringing to bear private sector resources, market forces, and state-level administration to finance more than 3 million affordable apartments—nearly one-third of the entire U.S. inventory—giving more than 6.7 million households, including low-income families, seniors, veterans, and people with disabilities, access to homes they can afford. Roughly 40 percent of these homes were financed in conjunction with multifamily Housing Bonds, which are an essential component of the program's success.

The Housing Credit Is a Proven Solution to Meet a Vast and Growing Need

Despite the Housing Credit's tremendous impact, there are still 11 million renter households—roughly one out of every four—who spend more than half of their income on rent, leaving too little for other necessary expenses like transportation, food, and medical bills. This crisis is continuing to grow. HUD reports that as of 2015, the number of households with "worst case housing needs" had increased by 38.7 percent over 2007 levels, when the recession began, and by 63.4 percent since 2001. A study by Harvard University's Joint Center for Housing Studies and Enterprise Community Partners estimates that the number of renter households who pay more than half of their income towards rent could grow to nearly 15 million by 2025.

Without the Housing Credit, there would be virtually no private investment in affordable housing. It simply costs too much to build rental housing to rent it at a level that low-income households can afford. In order to develop new apartments that are affordable to renters earning the full time minimum wage, construction costs would have to be 72 percent lower than the current average.

The Housing Credit Creates Jobs

Housing Credit development supports jobs—roughly 1,130 for every 1,000 Housing Credit apartments developed, according to the National Association of Home Builders (NAHB). This amounts to roughly 96,000 jobs per year, and more than 3.25 million since the program was created in 1986. NAHB estimates that about half of the jobs created from new housing development are in construction. Additional job creation occurs across a diverse range of industries, including the manufacturing of lighting and heating equipment, lumber, concrete, and other products, as well as jobs in transportation, engineering, law, and real estate.

The Housing Credit Stimulates Local Economies and Improves Communities

The Housing Credit has a profound and positive impact on local economies. NAHB estimates the Housing Credit adds $9.1 billion in income to the economy and generates approximately $3.5 billion in federal, state, and local taxes each year. Conversely, a lack of affordable housing negatively impacts economies. Research shows that high rent burdens have priced out many workers from the most productive cities, resulting in 13.5 percent foregone GDP growth, a loss of roughly $1.95 trillion, between 1964 and 2009.

Housing Credit development also positively impacts neighborhoods in need of renewal. About one-third of Housing Credit properties help revitalize distressed communities. Stanford University research shows Housing Credit investments improve property values and reduce poverty, crime, and racial and economic isolation, generating a variety of socio-economic opportunities for Housing Credit tenants and neighborhood residents.

Affordable Housing Improves Low-Income Households' Financial Stability

Affordable housing promotes financial stability and economic mobility. It leads to better health outcomes, improves children's school performance, and helps low-income individuals gain employment and keep their jobs. Affordable housing located near transportation and areas with employment opportunities provides low-income households with better access to work, which increases their financial stability and provides employers in those areas with needed labor.

Families living in affordable homes have more discretionary income than low-income families who are unable to access affordable housing. This allows them to allocate more money to other needs, such as health care and food, and gives them the ability to pay down debt, access childcare, and save for education, a home down payment, retirement, or unexpected needs.

The Housing Credit Is a Model Public-Private Partnership

The Housing Credit is structured so that private sector investors provide upfront equity capital in exchange for a credit against their tax liability over 10 years, which only vests once the property is constructed and occupied by eligible households paying restricted rents. This unique, market based design transfers the risk from the taxpayer to the private sector investor. In the rare event that a property falls out of compliance during the first 15 years after it is placed in service, the Internal Revenue Service can recapture tax credits from the investor. Therefore, it is in the interest of the private sector investors to ensure that properties adhere to all program rules, including affordability restrictions and high-quality standards.

The Housing Credit Is State Administered with Limited Federal Bureaucracy

The Housing Credit requires only limited federal bureaucracy because Congress wisely delegated its administration and decision-making authority to state government as part of its design. State Housing Finance Agencies, which administer the Housing Credit in nearly every state, have statewide perspective; a deep understanding of the needs of their local markets; and sophisticated finance, underwriting, and compliance capacity.

The Housing Credit Is Critical to Preserving Our Nation's Existing Housing Investments

The Housing Credit is our primary tool to preserve and redevelop our nation's current supply of affordable housing. Without the Housing Credit, our ability to revitalize and rehabilitate our nation's public housing and Section 8 housing inventory, decades in the making, would be significantly diminished. In addition to putting the residents of these properties at risk of displacement, we would lose these investments that taxpayers have already made.

In rural areas, where direct funding for rural housing programs has been cut significantly, the Housing Credit is the backbone for preservation and capital improvements to the existing housing stock. Low-income rural residents' incomes average just $12,960, and they are often living in areas with extremely limited housing options, making preservation of the existing housing stock crucial.

The Demand for Housing Credits Exceeds the Supply

Viable and sorely needed Housing Credit developments are turned down each year because the cap on Housing Credit authority is far too low to support the demand. In 2014—the most recent year for which data is available—state Housing Credit allocating agencies received applications requesting more than twice their available Housing Credit authority. Many more potential applications for worthy developments are not submitted in light of the intense competition, constrained only by the lack of resources.

The scarcity of Housing Credit resources forces state allocating agencies to make difficult trade offs between directing their extremely limited Housing Credit resources to preservation or new construction, to rural or urban areas, to neighborhood revitalization or developments in high opportunity areas, or to housing for the homeless, the elderly, or veterans. There simply is not enough Housing Credit authority to fund all of the properties needed, but with a substantial increase in resources, many more of these priorities would be addressed—and the benefits for communities would be even greater.

Though the need for Housing Credit-financed housing has long vastly exceeded its supply, Congress has not increased Housing Credit authority permanently in 16 years.

We Urge Congress to Expand and Strengthen the Housing Credit

To meaningfully grow our economy and address our nation's growing affordable housing needs through tax reform, we urge Congress to increase the cap on Housing Credit authority by 50 percent. Such an expansion would support the preservation and construction of up to 400,000 additional affordable apartments over a 10-year period. We also call on Congress to retain the tax exemption on multifamily Housing Bonds, which are essential to Housing Credit production.

The Affordable Housing Credit Improvement Act of 2017 (S. 548), which would authorize such an expansion, has earned strong bipartisan support in the Senate and among Senate Finance Committee members. This legislation would increase Housing Credit allocation authority by 50 percent phased in over 5 years, and enact roughly two dozen changes to strengthen the program by streamlining program rules, improving flexibility, and enabling the program to serve a wider array of local needs. The legislation would also generate a host of benefits for local communities, including increased local tax revenue, local income, and jobs, all benefits that meet the Committee's goals for tax reform.

An investment in the Housing Credit is an investment in individuals, local communities, and the economy. It transforms the lives of millions of Americans, many of whom are able to afford their homes for the first time—and it transforms their communities and local economies. We applaud the leadership the Senate Finance Committee has shown in support of the Housing Credit to date and urges the Committee to expand and strengthen the Housing Credit and multifamily Housing Bonds.

We look forward to working together with the Committee to preserve and improve the Low-Income Housing Tax Credit throughout tax reform; the Housing Credit and other multifamily housing programs are critical to providing quality rental housing to families in need and to improving economic opportunity for all Americans. Please don't hesitate to direct any questions to NAHMA's Director of Government Affairs, Larry Keys, at (703) 683–8630 ext. 111 or lkeys@nahma.org.

Sincerely,

Kris Cook, CAE
Executive Director

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Formed in 1933, NAHRO represents nearly 20,000 housing and community development professionals and agencies. Collectively, our members manage more than 950,000 public housing units, 1.6 million Housing Choice Vouchers, approximately 70,000 Low-Income Housing Tax Credit (LIHTC) units, and receive over $1.5 billion in Community Development Block Grant (CDBG) and HOME Investment Partnerships (HOME) Program funding to use in their communities. In all, NAHRO members provide housing for more than 7.9 million low-income people. NAHRO is unique in its ability to represent public housing agencies (PHAs), local redevelopment agencies (LRAs), and other HUD grantees of all sizes and geography. Many NAHRO members depend on LIHTC as a source of funding for their affordable housing projects.

LIHTC is a critical tool for PHAs/LRAs preserving and creating affordable housing. PHAs own and operate over 1.1 million units of federally subsidized public housing, supporting low income families, the elderly, disabled persons, and veterans. Although the public housing inventory is an integral component of our nation's infrastructure, chronic underfunding of the Capital and Operating Funds (the two primary funding mechanisms of public housing) has placed the inventory at risk, with a mounting capital needs backlog of well over $26 billion. PHAs turn to LIHTC to preserve and revitalize their distressed public housing inventory, and both PHAs and LRAs often take advantage of LIHTC's leveraging power to secure other state, local, federal resources (*e.g.,* CDBG) for affordable housing projects that revitalize their communities.

Last March, the Housing Authority of Salt Lake gathered alongside their public and private partners to celebrate the opening of the 9th Lofts at Bennion Plaza—a 68-unit mixed-use LIHTC development that will help chip away at the city's 7,500 unit affordable housing deficit. The project serves a mix of community low-income housing needs; a third of the units are reserved for residents with specific needs beyond affordability, including residents with physical disabilities, victims of domestic violence, military veterans, and those transitioning out of homelessness. Overall, NAHRO estimates that between 1984 and 2014, LIHTCs awarded to PHAs/LRAs have supported at least 53,200 low income housing units.[1]

The LIHTC is also important to the success of HUD's Rental Assistance Demonstration (RAD). RAD allows PHAs to leverage public and private debt and equity to address the capital needs backlog of their public housing portfolios. For example, Home Forward (previously known as the Housing Authority of Portland) is currently in the process of converting 31 public housing properties, with a total of 1,063 units, into Project-based Vouchers. Of the 31 properties undergoing conversion, 30 of those projects would utilize LIHTCs in their financing to assist with necessary capital improvements.

HUD data shows that the LIHTC has been essential in many of the RAD transactions closed by the Department thus far. Notably, 186 closed RAD conversions, amounting to almost 21,000 public housing units, had LIHTC in their financing.[2] As a cost-neutral program, Congress has supported RAD by expanding its current cap on conversions to 225,000 units. Without additional action to strengthen the LIHTC, this support falls short of its intent.

Currently there is a shortage of 7.2 million affordable and available rental units for the nation's 11.4 million extremely low-income households (those earning below 30 percent area median income [AMI]). One in four renter households is spending over half of their income on housing costs, and there is no state in the U.S. where a worker earning full-time minimum wage can afford a modest, two-bedroom apart-

[1] Department of Housing and Urban Development, Office of Policy Development and Research: LIHTC Database. *(https://www.huduser.gov/portal/datasets/lihtc.html#about).* Accessed on November 16, 2016.

[2] Department of Housing and Urban Development, Rental Assistance Demonstration Resource Desk: RAD First Component Data. *(http://www.radresource.net/firstcomponent.cfm).* Accessed July 27, 2017.

ment. NAHRO urges the committee to support a greater investment in the LIHTC as part of any efforts to address the America's affordable housing crisis.

Additionally, the LIHTC program benefits middle-class families who struggle with high housing costs. While the lowest-income renters disproportionally make up the largest share of cost-burdened households (those spending over 30 percent of income on housing costs), the sharpest growth in cost burden shares have been among middle-income households. Between 2001 and 2014, the share of cost-burdened households in the $30,000–$44,999 income range increased from 37 percent to 48 percent, while households in the $45,000–$74,999 range nearly doubled from 12 percent to 21 percent.[3]

NAHRO, along with the ACTION Campaign,[4] urges the Committee to pass the Affordable Housing Credit Improvement Act of 2017 (S. 548). Provisions strongly supported by NAHRO include:

- **Expand the overall LIHTC allocation authority by 50 percent.** NAHRO supports this expansion since 9 percent LIHTCs are highly competitive and difficult for PHAs/LRAs to secure. At a time where other federal housing resources are limited, expanding the volume cap by 50 percent will allow greater access for PHAs/LRAs, which would be a meaningful step towards addressing our nation's growing affordable housing deficit.
- **Establish a minimum 4 percent credit rate.** In 2015, Congress provided greater stability in the LIHTC market by establishing a minimum 9 percent LIHTC rate. However, NAHRO members often turn to 4 percent LIHTCs because they are non-competitive and more accessible. The current floating 4 percent rate is an impediment to projects. Establishing a permanent rate will make project financing more predictable and feasible.
- **Enable income averaging in LIHTC developments.** Housing Credit projects currently serve renters with incomes up to 60 percent of AMI, and rents are comparably restricted. While states are encouraged to give preference to developments that serve the lowest-income populations, it can be difficult to make these developments financially feasible, especially in certain areas where many of NAHRO's members are located. Examples include: rural areas with very low median incomes, economically depressed communities pursuing mixed-income revitalization, and high-cost markets.

The LIHTC is the most successful tool for enabling and encouraging private sector investment in the production and preservation of affordable rental housing. It has been a critical source of equity for almost 3 million affordable apartments over the last 30 years (almost one-third of the entire U.S. inventory), providing over 6.7 million low-income households with access to homes that they can afford.

The LIHTC spurs job creation and stimulates local economies. Since 1986, LIHTC developments have supported over 3.26 million jobs. The National Association of Home Builders (NAHB) estimates that for every 1,000 apartments developed by LIHTC, roughly 1,130 jobs are created—approximately 96,000 jobs per year. Additionally, LIHTC adds approximately $9.1 billion in income to the economy and generates about $3.5 billion in federal, state, and local taxes each year.

The LIHTC requires limited federal bureaucracy. The original authorizers of LIHTC recognized the importance of local control in its administration and decision-making authority. State and local housing entities have a much greater understanding of the needs of their local markets and possess the sophisticated finance, underwriting, and compliance capacity necessary to administer LIHTC.

By preserving affordable housing, producing new housing options, creating jobs, and helping struggling low- *and* moderate-income families across the country, LIHTC program is a common-sense approach to ensuring a stronger housing infrastructure.

Mr. Chairman and members of the Senate Finance Committee, thank you for your interest in meeting the nation's affordable housing needs and NAHRO welcomes your continued support of the LIHTC.

[3] *America's Rental Housing: Expanding Options for Diverse and Growing Demand.* Harvard Joint Center for Housing Studies, 2015.

[4] The ACTION Campaign, of which NAHRO is a Steering Committee member, is a national coalition of roughly 1,300 organizations and businesses calling on Congress to expand and strengthen LIHTC. Learn more at: *http://rentalhousingaction.org/*.

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Members of the Senate Finance Committee,

The National Housing Conference thanks the Senate Finance Committee for holding a hearing on "America's Affordable Housing Crisis: Challenges and Solutions," and appreciates your attention to the challenge of housing affordability which affect s too many American households. Much of the hearing focused on the Affordable Housing Credit Improvement Act, S. 548, which Senator Maria Cantwell (D–WA) and Senate Finance Committee Chairman Orrin Hatch (R–UT) introduced earlier this year. This crucial piece of legislation would increase Housing Credit authority, facilitate Housing Credit development in challenging markets and for hard-to-reach populations, support the preservation of existing affordable housing, and simplify program requirements. NHC is grateful to Senator Cantwell and Chairman Hatch for their leadership, and to the other Committee members—Ranking Member Ron Wyden (D–OR) and Senators Dean Heller (R–NV), Michael Bennet (D–CO), Rob Portman (R–OH), and Johnny Isakson (R–GA)—for their co-sponsorship support. NHC strongly urges the Committee to advance the Affordable Housing Credit Improvement Act as part of any tax legislation it considers.

The Housing Credit is a proven, effective solution to producing affordable housing; strengthening and expanding it will help create and preserve more rental homes for families and individuals, revitalize neighborhoods, and spur private sector investment.

- The Housing Credit has a remarkable track record, a model public-private partnership program that has financed more than 3 million affordable homes.
- The Housing Credit is a proven solution to meet a large and growing need; 11 million renter households are severely cost burdened and need affordable housing.
- The Housing Credit stimulates local economies and improves communities; Stanford University research shows Housing Credit investments reduce poverty, crime, and racial and economic isolation.
- The Housing Credit is state administered with limited federal bureaucracy.
- The Housing Credit is our primary tool to preserve and redevelop our nation's current supply of affordable housing.
- The demand for Housing Credits exceeds the supply. In 2014, state Housing Credit allocating agencies received applications requesting more than twice their available Housing Credit authority.

To meaningfully grow our economy and address our nation's growing affordable housing needs as part of tax reform, NHC urges Congress to increase the cap on Housing Credit authority by 50 percent which would support the preservation and construction of up to 400,000 additional affordable apartments over a 10-year period. We also call on Congress to retain the tax exemption on multifamily Housing Bonds. S. 548 would authorize such an expansion and has strong bipartisan support in the Senate and among Senate Finance Committee members. This legislation would also enact roughly two dozen changes to strengthen the program by streamlining program rules, improving flexibility, and enabling the program to serve a wider array of local needs.

An investment in the Housing Credit is an investment in people, communities, and the economy. It transforms the lives of millions of Americans, many of whom are able to afford their homes for the first time, and it helps transform their communities and local economies. NHC applauds the leadership the Senate Finance Committee has shown in support of the Housing Credit to date and urges the Committee to expand and strengthen the Housing Credit and multifamily Housing Bonds.

To discuss any of these comments in further detail, please contact Rebekah King, Policy Associate, National Housing Conference, (202) 466–2121 ext. 248, rking@nhc.org.

Sincerely,

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Congress and the Trump administration should use tax reform to address one of the most critical issues facing extremely low-income families today: the lack of decent, accessible, and affordable housing. Through smart, modest reforms to the mortgage interest deduction (MID)—a $70 billion tax write-off that primarily benefits higher income households—Congress can reprioritize and rebalance federal spending on housing to make the deeply targeted investments in affordable rental housing that our nation needs for the economy, our communities, and families to thrive. *All without increasing costs to the federal government.*

Access to an affordable rental home is essential to economic prosperity and job creation. An affordable home is necessary for families to participate fully in the economy, making it easier for adults to find and keep good jobs and contribute to economic growth. Living in an affordable home improves children's health and education, increasing their economic success as adults. Moreover, federal investments in affordable homes boost local economies and create jobs. Despite the benefits of affordable homes, three out of four families eligible for rental assistance are turned away due to a lack of funding and half a million people are homeless on any given night. As a result, 71% of extremely low income households those earning less than the poverty guideline or 30% of the Area Median Income—pay at least half of their limited income on rent, leaving few resources to cover basic needs, like food, healthcare, childcare, and transportation.

At the same time, three-fourths of the nearly $200 billion spent by the federal government to help Americans buy or rent their homes goes to higher income households. In fact, the federal government spends more to subsidize the homes of the 7 million households with incomes above $200,000 than to assist the 55 million households with incomes below $50,000, even though they are far more likely to struggle to afford a place to live.

Reprioritizing federal housing policy starts with reforming the MID and reinvesting the savings into affordable rental homes for people with the greatest needs. Experts from across the political spectrum are increasingly calling the MID what it is: a wasteful use of federal resources that encourages households to take on higher levels of debt, disrupts the housing market by increasing costs for everyone, and mostly benefits those who do not need federal assistance to live in a stable home. Research confirms that the MID has no impact on homeownership.

The National Low Income Housing Coalition (NLIHC) and the United for Homes campaign proposes modest reforms to the MID to provide 25 million low and moderate income homeowners greater tax relief and to reinvest the $241 billion in savings over 10 years to provide affordable rental homes to people with the lowest incomes.

President Trump has proposed indirect changes to the MID, including doubling the standard tax deduction. This could provide a greater tax break to low and moderate income households. However, because the resulting MID would become even more regressive, benefiting only the wealthiest homeowners with the largest mortgages, Congress should pair any proposal to increase the standard deduction with additional MID reforms and reinvest the savings into deeply targeted affordable rental housing.

By reprioritizing federal housing policy, Congress and the Trump administration can help end homelessness and housing poverty once and for all, giving all families an opportunity to break through the cycle of poverty and climb the ladder of economic success.

The Need for Affordable Housing

The affordable housing crisis in America continues to reach new heights. Rents are rising, wages of the lowest income workers are flat, and more people are renting their homes than ever before. But the supply of affordable housing and rental assistance has not kept pace. As a result, record-breaking numbers of families cannot afford a decent place to call home. Every state and congressional district is impacted. Unless we increase investments in affordable housing to keep up with the need, these challenges will only get worse as demand for rental housing grows over the next decade.[1]

The greatest need for affordable housing—on the local, state, and national level—is concentrated among extremely low-income renters who earn no more than the poverty guideline or 30% of the area median income (AMI). NLIHC's recent report, "The Gap: The Affordable Housing Gap Analysis 2017," found a shortage of 7.4 million affordable and available rental homes for the nation's 11.4 million extremely low income renter households. Nationally, only 35 affordable homes are available for every 100 extremely low income renter households. As a result, 71% of the poorest families are severely cost burdened, spending more than half of their limited income on rent and utilities. These 8.1 million households account for 72.6% of all severely cost burdened renters in the country. They are forced to make difficult choices between paying rent and buying groceries or visiting their doctor. In the worst cases, these families become homeless.

NLIHC's report, "Out of Reach 2017: The High Cost of Housing," shows the difference between wages and the price of housing in every state and county by estimating each locality's "housing wage," the hourly wage a full-time worker needs to earn to afford a modest, two-bedroom apartment. In 2017, the national housing wage was $21.21 per hour. A worker earning the federal minimum wage would need to work 117 hours a week—or 2.9 full-time jobs—to afford a modest two-bedroom apartment. While the housing wage changes from state to state and county to county, there is no jurisdiction in the United States where a full-time worker earning the prevailing minimum wage can afford a modest, two-bedroom apartment. And it's not just minimum wage workers for whom rents are out of reach: the average renter in the U.S. earns $16.38 per hour—nearly $5 an hour less than the national housing wage.

The public is looking to the White House and Congress for solutions. According to a recent How Housing Matters survey, 81% of Americans believe housing affordability is a problem in America, and 60% characterize the lack of affordable housing as a serious problem. Three out of four (76%) Americans believe it is important for federal elected officials to take action on housing affordability, and 63% believe the issue is not getting enough attention.[2]

Impact on Economic Mobility

Affordable housing is a long-term asset that helps families and children climb the economic ladder. According to the How Housing Matters survey, 70% of Americans agree that "investing in affordable, quality housing is investing in kids and their future."[3]

Increasing the supply of affordable housing and rental assistance—especially in areas connected to good schools, well-paying jobs, health care, and transportation—helps families climb the economic ladder. In addition, children who live in stable, affordable homes have better health and educational outcomes, gain greater access to economic opportunities, enjoy better mental and physical well-being, and benefit from stronger communities. Research shows that increasing access to affordable housing is *the most cost-effective strategy* for reducing childhood poverty in the United States.[4]

Groundbreaking research by economist Raj Chetty offers persuasive evidence of the impact of affordable housing on upward mobility for children. Using new tax data, Chetty and his colleagues assessed the long-term outcomes for children who moved at a younger age to lower poverty neighborhoods. Chetty's study found that children who were younger than 13 when their family moved to lower poverty neighborhoods saw their earnings as adults increase by approximately 31%, were more likely to live in better neighborhoods as adults, and less likely to become a single parent.

[1] Poethig, Erika C. "Better housing policy could save us all money. Why are we ignoring it?" *The Washington Post.* Oct. 11, 2016. *https://www.washingtonpost.com/news/in-theory/wp/2016/10/11/better-housing-policy-could-save-us-all-money-why-are-we-ignoring-it?utm_term=.741ab09f87cf.* Last visited July 28, 2017.

[2] "Affordable Housing: An Investment in Kids and Their Future." How Housing Matters. 2016. *https://howhousingmatters.org/articles/affordable-housing-investment-kids-future/.* Last visited July 28, 2017.

[3] "Affordable Housing: An Investment in Kids and Their Future." How Housing Matters. 2016. *https://howhousingmatters.org/articles/affordable-housing-investment-kids-future/.* Last visited July 28, 2017.

[4] Giannarelli, Linda et al. "Reducing Child Poverty in the US: Costs and Impacts of Policies Proposed by the Children's Defense Fund." Urban Institute. January 30, 2015. *http://www.urban.org/research/publication/reducing-child-poverty-us.* Last visited July 28, 2017.

Other research shows that children living in stable, affordable homes are more likely to thrive in school and have greater opportunities to learn inside and outside the classroom. Children in low income households that live in affordable housing score better on cognitive development tests than those in households with unaffordable rents.[5] Researchers suggest that that is partly because parents with affordable housing can invest more in activities and materials that support their children's development.[6] Having access to affordable housing allows the lowest income families to devote more of their limited resources to other basic needs. Families paying large shares of their income for rent have less money to spend on food, health care, and other necessities.[7]

Impact on the Economy and Job Creation

Beyond the broad benefits to economic mobility, an investment in affordable housing for the lowest income households bolsters productivity and economic growth. By connecting workers to communities with well-paying jobs, good schools, and transit, investments in affordable housing can spur local job creation and increase incomes.

Research shows that the shortage of affordable housing in major metropolitan areas costs the American economy about $2 trillion a year in lower wages and productivity. Without affordable homes, families have constrained opportunities to increase earnings, causing slower GDP growth.[8] Moreover, each dollar invested in affordable housing boosts local economies by leveraging public and private resources to generate income—including resident earnings and additional local tax revenue—and supporting job creation and retention. Building 100 affordable rental homes generates $11.7 million in local income, $2.2 million in taxes and other revenue for local governments, and 161 local jobs in the first year.[9]

The Need to Reprioritize Federal Housing Policy

Federal investments in affordable housing—at the U.S. Departments of Housing and Urban Development (HUD) and Agriculture (USDA)—have lifted millions of families out of poverty. Without these investments, many of these families would be homeless, living in substandard or overcrowded conditions, or struggling to meet other basic needs because too much of their limited income would go to paying rent. Despite their proven track record, HUD and USDA affordable housing investments have been chronically underfunded. Today, of the families who qualify for housing assistance, only a quarter will get the help that they need. Every state and congressional district is impacted.

There is no silver-bullet solution. Housing challenges differ from community to community. Congress and the Trump administration, as well as state and local governments, must use every tool available to solve the problem. A comprehensive set of solutions to end housing insecurity in America includes preserving and rehabilitating our nation's existing affordable housing stock, increasing investments in the production of affordable rental homes for low income families, and expanding rental assistance and other housing programs that help make housing affordable.

Underlying all these solutions is the need to increase targeted federal investments in affordable housing to help families and communities thrive. This can be done—**without increasing costs for the federal government**—by reforming the MID, our nation's largest housing subsidy that largely benefits higher income homeowners, and reinvesting the savings to serve those with the greatest needs.

Most Federal Housing Resources Are Poorly Targeted to Serve People With the Greatest Needs

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[5] Newman, Sandra J. and C. Scott Holupka. "Housing Affordability and Child Well-Being." Housing Policy Debate 25.1 (2014): 116–51. Taylor and Francis Online. *http://www.tandfonline.com/doi/abs/10.1080/10511482.2014.899261.* Last visited July 28, 2017.

[6] Newman, Sandra J. and C. Scott Holupka. "Affordable Housing Is Associated with Greater Spending on Child Enrichment and Stronger Cognitive Development." How Housing Matters. MacArthur Foundation. July 2014. *https://www.macfound.org/media/files/Affordable_Housing_Child_Enrichment_Stronger_Cognitive_Development.pdf.* Last visited July 28, 2017.

[7] *America's Rental Housing: Expanding Options for Diverse and Growing Demand.* Rep. Joint Center for Housing Studies at Harvard University, 2015. *http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/americas_rental_housing_2015_web.pdf.* Last visited July 28, 2017.

[8] Hsieh, Chang-Tai and Enrico Moretti. "Housing Constraints and Spatial Allocation." UC Berkeley and the National Bureau of Economic Research. May 18, 2017. *http://faculty.chicagobooth.edu/chang-tai.hsieh/research/growth.pdf.* Last visited July 28, 2017.

[9] *The Economic Impact of Home Building in a Typical Local Area: Income, Jobs, and Taxes Generated.* Rep. National Association of Home Builders, Apr. 2015. *https://www.nahb.org/~/media/Sites/NAHB/Economic%20studies/1-REPORT_local_20150318115955.ashx?la=en.* Last visited July 28, 2017.

Each year, the federal government spends almost $200 billion to help Americans buy and rent their homes. A full 75% of all these resources—including both program spending and tax expenditures—goes to subsidize higher income homeowners though the MID and other homeownership tax breaks. Targeted federal housing resources at HUD and USDA, which have seen deep funding cuts in recent years due to the low spending caps required by the Budget Control Act, amount to just a quarter of all federal spending on housing.[10]

Federal housing policy is so unbalanced, in fact, that we as a nation spend more to subsidize the homes of the 7 million highest income households with incomes above $200,000 than we do to help the 55 million households with incomes of $50,000 or less, even though these families are more likely to struggle to afford housing.[11]

The Center on Budget and Policy Priorities estimates households with incomes of $200,000 or more receive an average federal housing benefit of $6,076 per year—about four times the average annual benefit of $1,529 received by households with incomes below $20,000.

MID Is a Wasteful Use of Federal Resources

The MID is poorly targeted and largely benefits America's highest income households. For this reason, experts from across the ideological spectrum criticize the MID as a wasteful use of federal resources that encourages households to take on higher levels of debt, disrupts the housing market by increasing costs for everyone, and mostly benefits those who do not need federal assistance to live in a stable home. Research confirms that the MID has no impact on homeownership.

The MID Promotes Debt, Not Homeownership

According to estimates by the congressional Joint Committee on Taxation, the MID primarily benefits households with the higher incomes. Households earning less than $100,000 represent two-thirds (68%) of all taxable returns. However, these households amount to one-third (36%) of all households that claim the MID, and they receive just 16% of all MID dollars.

In comparison, households with incomes of more than $100,000 represent 32% of all taxable returns, but more than two-thirds (64%) of all households that claim the MID, they receive 84% of all MID dollars. And households with incomes above $200,000 file only 8% of all taxable returns. They amount to 21% of all households claiming the MID and they receive nearly half (46%) of all MID dollars.

The nonpartisan Congressional Budget Office (CBO) reports that 75% of the benefits of the MID go to the top 20% of earners. In fact, 15% of the benefits of the MID, or nearly $11 billion each year, goes to the top 1% of earners, the wealthiest households in America.

Everyone else gets almost nothing. Approximately 70% of all taxpayers do not receive the MID, including half of all homeowners who do not itemize their tax deductions and instead take the standard deduction.

Economists agree that the MID does little to promote homeownership. Higher income households that benefit from the MID would likely choose to buy a home regardless of whether they receive a tax break. Instead, the MID incentivizes these higher income households to take on larger mortgages; greater mortgage debt results in more mortgage interest eligible for a tax break. Moreover, the value of the MID corresponds to a household's marginal tax rate, so households in higher tax brackets receive more than households in lower tax brackets.

For example, in the first comprehensive, long-term study of how tax subsidies affect housing decisions, the National Bureau of Economic Research found that the MID "has a precisely estimated zero effect on homeownership," even in the long term. Instead, the data show that the MID encourages homeowners to buy larger and more expensive houses and to take on increased levels of debt.

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[10] Fischer, Will and Barbara Sard. "Chart Book: Federal Housing Spending Is Poorly Matched to Need." Center on Budget and Policy Priorities. March 8, 2017. *https://www.cbpp.org/research/housing/chart-book-federal-housing-spending-is-poorly-matched-to-need.* Last visited July 28, 2017.

[11] Fischer, Will and Barbara Sard. "Chart Book: Federal Housing Spending Is Poorly Matched to Need." Center on Budget and Policy Priorities. March 8, 2017. *https://www.cbpp.org/research/housing/chart-book-federal-housing-spending-is-poorly-matched-to-need.* Last visited July 28, 2017.

Meanwhile, lower income homeowners receive little to no benefit from the MID. These households are far less likely to itemize their tax deductions; their mortgages tend to be smaller and, therefore, they have less mortgage interest eligible for a tax break. And even if they claim the mortgage deduction, because their marginal tax rate is lower, the value of the MID is significantly less than homeowners with higher incomes.

Households earning more than $1 million receive an average annual MID benefit of nearly $9,000, while households earning between $40,000 and $50,000 receive an average MID benefit of $528 per year.[12]

Economists note that many developed countries without a MID have the same or higher homeownership rate as the U.S. As the CBO has reported, "Despite the favorable tax treatment that mortgage interest receives in the United States, the rate of homeownership here is similar to that in Australia, Canada, and the United Kingdom, and none of those countries currently offers a tax deduction for mortgage interest."[13]

The MID Distorts Markets and Increases Costs

The MID distorts the housing and investment markets, increasing the cost of homeownership and dampening economic growth. By inflating home values, the MID largely benefits households that already own their homes at the expense of those who hope to become homeowners in the future. While higher income households can absorb higher housing costs without a significant impact on homeownership rates, this added expense makes it more difficult for low and moderate income families to buy a home. Others have also argued that the MID distorts the housing market by discouraging investment in one consumer good—homes—at the expense of other possibly more productive economic activity.[14]

The MID Increases Income Inequality and Fuels the Racial Wealth Gap

Pulitzer prize-winning author and sociologist Matthew Desmond illustrated how the MID has become "the engine of American inequality" in his recent *New York Times* magazine article. Dr. Desmond notes that the federal government spends about $134 billion to subsidize the homes of higher income households through the MID and other homeownership tax breaks—more than the entire budgets of the U.S. Departments of Education, Justice and Energy combined and more than half the entire gross domestic product of countries like Chile, New Zealand and Portugal. At the same time, too few low income households that use more than half of their limited incomes for rent each month, leaving very little left to cover the cost of groceries, medicine, and other basic needs.

In his new book, *Toxic Inequality: How America's Wealth Gap Destroys Mobility, Deepens the Racial Divide, and Threatens Our Future,* sociologist Thomas Shapiro examines the role the MID has played in exacerbating growing income inequality and racial inequity. After noting that "we invest five times more public money in home ownership for families that can afford homes than in decent, affordable housing for those who cannot," Shapiro argues that this public investment in homeownership "flows mostly to the best-off homeowners, redistributing wealth at the top, driving wealth inequality, and contributing to toxic inequality."[15]

While there is less direct data on the racial impact of the MID—largely because race and ethnicity data are not collected on tax forms—there is significant evidence that the MID negatively impacts households of color. Recently, the Tax Policy Center examined ZIP codes in which high rates of residents claimed the MID; it found that black households represent only 5.6% of the population in these areas, less than half their national proportion. By comparison, residents of ZIP codes with the highest rates of taxpayers claiming the MID are disproportionately white.[16]

Moreover, by examining MID beneficiaries by income bracket, the Tax Policy Center found that black households receive only 3.5% of tax expenditures in individual

[12] "Options to Reform the Deduction for Home Mortgage Interest," Tax Policy Center, 2015.

[13] "Reducing the Deficit: Spending and Revenue Options." Congressional Budget Office. March 10, 2011. *https://www.cbo.gov/publication/22043.* Last visited July 28, 2017.

[14] "The Houses of Lobbyists." *The Wall Street Journal.* May 6, 2017. *https://www.wsj.com/articles/houses-of-lobbyists-1494024305.* Last visited July 28, 2017.

[15] Shapiro, Thomas. "Moyers and Company: How Our Tax Code Makes Inequality Worse." United for Homes. May 18, 2017. *http://www.unitedforhomes.org/news/moyers-company-tax-code-makes-inequality-worse/*. Last visited July 28, 2017.

[16] Shapiro, Thomas. "Moyers and Company: How Our Tax Code Makes Inequality Worse." United for Homes. May 18, 2017. *http://www.unitedforhomes.org/news/moyers-company-tax-code-makes-inequality-worse/*. Last visited July 28, 2017.

wealth building, which includes the MID, despite comprising 13.2% of the population. "African-American families would accumulate $35 billion more in wealth each year if their incomes were distributed according to their national representation—13.2% in each income bracket."[17]

Proposals to Reform the MID

Congress has a clear opportunity to enact tax reform that addresses the growing affordable rental housing crisis facing millions of low-income people in every state and community. That starts with reforming the MID, our nation's largest housing subsidy, and reinvesting these scarce resources to serve those with the greatest needs. Experts from across the political spectrum agree, including *The Wall Street Journal* editorial board, former President George W. Bush advisor Dennis Shea, the CATO Institute, the Ronald J. Terwilliger Foundation, former President Obama advisor Michael Stegman, former Labor Secretary Robert Reich, Pulitzer prize-winning author and sociologist Matthew Desmond, and many others.

NLIHC's United for Homes campaign—which has been endorsed by more than 2,300 organizations, local governments, and elected officials—proposes to reform the MID. The changes are simple and modest. United for Homes calls for:

1. **Reducing the amount of mortgage eligible for tax relief from $1 million to the first $500,000, generating $87 billion in savings over 10 years.**[18]

An analysis of 2013–2015 Home Mortgage Disclosure Data (HMDA) shows that just 6% of new mortgages in the U.S. are over $500,000. And homeowners with large mortgages would still receive tax relief on the first $500,000 of their mortgage. For example, a homeowner with a mortgage of $600,000 would still benefit from a tax break on the first $500,000 of their mortgage. Lowering the cap would have "virtually no effect on homeownership rates." Economist Edward Glaeser argues that capping the MID at the first $500,000 would have only "modest effects on home prices" in supply-constrained cities like San Francisco and virtually no effect in cities with plenty of available land, like Houston. "Most homeowners wouldn't even feel it," Glaeser says.

2. **Converting the deduction into a nonrefundable, 15% capped credit, generating $191 billion in savings over 10 years.**

Half of all homeowners receive no benefit from the MID because they do not itemize their tax deductions. By converting MID to a credit, an additional 15 million homeowners—99% of whom have incomes under $100,000—who currently get no benefit under the MID would receive a much-needed tax break. In total, 25 million low and moderate income homeowners would receive a greater tax break than they currently do under the MID. Converting the deduction to a credit has been proposed by several high-level bipartisan groups—President George W. Bush's Advisory Panel on Federal Tax Reform, the Simpson-Bowles Deficit Commission established by President Barack Obama, and the Bipartisan Policy Center's Debt Reduction Task Force—as a way to expand the tax break to more low and moderate income homeowners.

3. **Reinvesting the $241 billion in savings over 10 years into affordable rental homes for families with the greatest, clearest housing needs.**

The UFH reforms would generate $241 billion in savings over 10 years[19] to be reinvested into highly targeted rental housing programs that serve families with the greatest needs, including the national Housing Trust Fund (HTF), a new renters' credit, Housing Choice Vouchers, and other solutions for the lowest income people.

National Housing Trust Fund

The national Housing Trust Fund is the first new housing resource in a generation, targeted to build, preserve, and rehabilitate housing for people with the lowest incomes.

NLIHC led a national coalition that played a critical role in the creation of the Housing Trust Fund through the passage of the Housing and Economic Recovery Act of 2008. In 2016, the first $174 million in Housing Trust Fund dollars were allo-

[17] Shapiro, Thomas. "Moyers and Company: How Our Tax Code Makes Inequality Worse." United for Homes. May 18, 2017. *http://www.unitedforhomes.org/news/moyers-company-tax-code-makes-inequality-worse/*. Last visited July 28, 2017.
[18] If phased in over 5 years.
[19] If phased in over 5 years.

cated to states. This is an important step, but far more resources are necessary to meet the need.

The Housing Trust Fund is the *only federal housing program* exclusively focused on providing states with resources targeted to serve households with the clearest, most acute housing needs. Because the Housing Trust Fund is administered by HUD as a block grant, each state has the flexibility to decide how to best use Housing Trust Fund resources to address its most pressing housing needs. Each state distributes the resources based on its annual Allocation Plan, which identifies the state's priority housing needs. States decide which housing developments to support.

The Housing Trust Fund is also *the most targeted federal rental housing production and homeownership program.* By law, at least 75% of Housing Trust Fund dollars used to support rental housing must serve extremely low income (ELI) households earning no more than 30% of the Area Median Income (AMI) or the federal poverty limit. All Housing Trust Fund dollars must benefit households with very low incomes earning no more than 50% of AMI. Most other federal affordable housing programs can serve families up to 60% or 80% of AMI. The statute requires that at least 90% of the HTF funds be used for the production, preservation, rehabilitation, or operation of rental housing. Up to 10% may be used for homeownership activities for first-time homebuyers: production, preservation, and rehabilitation, and down payment, closing cost, and interest rate buy-down assistance.

Currently, the Housing Trust Fund is funded with dedicated sources of revenue outside of the appropriations process. The initial source of funding designated in the statute is an annual assessment of 4.2 basis points (0.042%) of the volume of business of Freddie Mac and Fannie Mae, 65% of which goes to the Housing Trust Fund.

The statute also provides that the Housing Trust Fund can be funded by other sources of revenue, such as any appropriations, transfers, or credits that Congress may designate in the future. However, the Housing Trust Fund should be funded with dedicated revenues generated outside of the appropriations process so that it does not compete with existing HUD programs.

Renters' Credit

NLIHC supports proposals to establish a tax credit to help make housing affordable for renters with the lowest incomes.[20] Our nation has long provided mortgage tax relief for higher income homeowners, most of whom would be stably housed without assistance. A renters' tax credit that could help ensure that the lowest income households can afford a safe, decent home is long overdue.

A renters' tax credit could complement the existing Low-Income Housing Tax Credit—which works well as a subsidy for affordable housing development, but is rarely sufficient on its own to push rents down to levels poor families can pay—and rental assistance programs, such as Housing Choice Vouchers—which are highly effective, but reach only a modest share of the families in need of such assistance. Any renters' credit should benefit individuals with the lowest incomes and the greatest needs. Efforts to ensure that extremely low income households do not pay more than 30% of their incomes on housing should be prioritized.

Proposals to establish a renters' tax credit offer a promising opportunity to address the affordable housing challenges of the many lowest income households who go without assistance and to help these families keep more of their incomes for other necessities.

Housing Choice Vouchers

Housing Choice Vouchers are a proven tool in reducing homelessness and housing insecurity, as well as helping families climb the economic ladder. Housing vouchers help people with the lowest incomes afford housing in the private market by paying landlords the difference between what a household can afford to pay in rent and the rent itself, up to a reasonable amount. Administered by HUD, housing vouchers comprise the agency's largest rental assistance program, assisting more than 2.2 million households.

[20] CBPP proposal: Sard, Barbara and Will Fischer. "Renters' Tax Credit Would Promote Equity and Advance Balanced Housing Policy." Center on Budget and Policy Priorities. August 21, 2013. *https://www.cbpp.org/research/housing/renters-tax-credit-would-promote-equity-and-advance-balanced-housing-policy.* Last visited July 28, 2017.

Terner Center proposal: Galante, Carol et al. "The Fair Tax Credit: A Proposal for a Federal Assistance in Rental Credit to Support Low-Income Renters." UC Berkeley Terner Center for Housing Innovation. November 2016. *http://ternercenter.berkeley.edu/fair-tax-credit.* Last visited July 28, 2017.

Despite the program's proven success in ending homelessness and reducing housing insecurity, limited funding means that relatively few eligible families receive this needed assistance. Today, just one in four eligible families receives the rental assistance they need.

Given the program's effectiveness, we recommend that Congress significantly expand housing vouchers to provide families in need with housing choice. While housing vouchers offer families the prospect of moving to areas of opportunity, barriers to mobility prevent many from doing so. Many private-sector landlords refuse to accept housing vouchers—whether because of the administrative costs, because vouchers do not cover the full cost of rent in high-cost areas, or outright discrimination. There are a number of steps that can be taken to address these issues, including consolidating public housing authorities' administration of vouchers within a housing market, directing HUD to adopt small area fair market rents (SAFMRs) with strong tenant protections, barring source-of-income discrimination, and funding mobility counseling pilot programs, among others.

Proposals to Double the Standard Tax Deduction

President Trump's broad principles for tax reform includes indirect changes to the MID, including a proposal to double the standard deduction.

If the standard deduction were doubled, many households would no longer claim the MID and instead would take the increased standard deduction. This change in the tax code could provide a greater tax break to many low- and moderate-income households and could lead to higher homeownership rates over the long-term.

However, without additional reforms, Mr. Trump's proposal would amplify the MID's regressive effect; only higher income Americans with the largest mortgages would benefit. NLIHC agrees with the Wall Street Journal editorial board that if Congress doubles the standard deduction, it should also embrace other reforms to make MID less regressive—like reducing the amount of mortgage eligible for the MID from $1 million to the first $500,000. The savings from such a change must be reinvested into deeply targeted affordable rental housing.

Doubling the Standard Deduction Could Boost Homeownership Rates and Home Values

Economists argue that doubling the standard deduction could boost homeownership rates over the long-term. Trulia's Chief Economist Ralph McLaughlin states, "While the tax benefits of homeownership will erode for some, it might help increase the ability of renters to save up for the all elusive down payment. In turn, this could boost home buying activity in the long run."[21]

Dennis Ventry from the American Enterprise Institute likewise suggests that doubling the standard deduction would increase demand for homeownership, especially among low and moderate income families because the proposal "subsidizes taxpayers on the margin between owning and renting rather than taxpayers who can purchase a home with or without a subsidy."[22] Millions of current homeowners would see a greater tax break and so would first-time homeowners eager to jump into the homeownership market.

Some industry groups have warned that doubling the standard deduction could dampen home values—a claim that experts dispute. While Ventry concedes that home prices may decrease initially, this effect would be temporary and would be outweighed by a longer-term increase in the demand for homeownership: "Positive effects on homeownership rates from lower home prices would more than offset negative effects from loss of the deductions, particularly in high-priced, space-constricted markets." Ventry argues that, in most parts of the country, doubling the standard tax deduction would "have no negative effect on prices and might even raise prices due to the purchasing power of the new tax-free dollars."[23]

[21] McLaughlin, Ralph. "How the Trump Administration's Tax Plan Might Impact Homebuying." May 16, 2017. *https://www.trulia.com/blog/trends/trump-tax-proposal-may-17/*. Last visited July 28, 2017.

[22] Ventry, Dennis J., Jr. "The Hill: Trump's Tax Plan Can Boost, Not Reduce, Homeownership." United for Homes. May 23, 2017. *http://www.unitedforhomes.org/news/hill-trumps-tax-plan-can-boost-not-reduce-homeownership/*. Last visited July 28. 2017.

[23] Ventry, Dennis J., Jr. "The Hill: Trump's Tax Plan Can Boost, Not Reduce, Homeownership." United for Homes. May 23, 2017. *http://www.unitedforhomes.org/news/hill-trumps-tax-plan-can-boost-not-reduce-homeownership/*. Last visited July 28, 2017.

Additional Reforms Are Needed if Congress Doubles Standard Deduction

Today, about 70% of taxpayers do not benefit from the MID. This includes half of all homeowners who do not itemize their tax deductions. The National Association of Realtors estimates that if the standard deduction is doubled, as proposed by President Trump, 95% of taxpayers will choose to take the standard deduction. The higher standard deduction would provide them with a greater tax break than itemizing their tax deductions. As a result, only 5% of taxpayers—primarily higher income households with the largest mortgages would continue to claim the MID.[24]

Prashant Gopal and Joe Light estimate that a married couple would need a mortgage of at least $608,000 before it would make sense to itemize rather than use the standard deduction, assuming that the couple did not have any other itemizable deductions, which was proposed by the Trump administration.[25] Only higher income Americans—those who would likely become homeowners without a tax break and who would likely have stable housing without federal assistance—would benefit from the MID.

Because the resulting MID would become even more regressive after the standard deduction was doubled, Congress should pair any proposal to double the standard deduction with additional MID reforms, including reducing the amount of mortgage eligible for the MID from $1 million to the first $500,000 and reinvesting the savings into deeply targeted affordable rental housing.

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The National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) respectfully submit this statement for the record for the Senate Finance Committee's August 1, 2017, hearing titled "America's Affordable Housing Crisis: Challenges and Solutions."

For more than 20 years, the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) have partnered in a joint legislative program to provide a single voice for America's apartment industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. As a federation of more than 160 state and local affiliates, NAA encompasses over 73,000 members representing nearly 9 million apartment homes globally.

Rental Housing—The Supply-Demand Imbalance

Housing affordability is a significant challenge facing many Americans today who seek to rent an apartment home. The number of families renting their homes stands at an all-time high and is still growing strongly, placing significant pressure on the apartment industry to meet the demand. This is making it challenging for millions of families nationwide to find quality rental housing that is affordable at their income level.

Affordability has been a longstanding problem in housing. The total share of cost-burdened apartment households (those paying more than 30 percent of their income on housing) increased steadily from 42.4 percent in 1985 to 54.8 percent in 2015. Also during this period, the total share of severely cost-burdened apartment households (those paying more than half their income on housing) increased from 20.9 to 29.2 percent.[1] This housing cost burden also places pressure on a household's

[24] Gopal, Prashant and Joe Light. "25 Million Americans Could Find Mortgage Tax Break Useless Under Trump's Plan." Bloomberg. May 16, 2017. *https://www.bloomberg.com/news/articles/2017-05-16/trump-tax-plan-would-make-mortgage-break-worthless-for-millions.* Last visited July 28, 2017.

[25] Gopal, Prashant and Joe Light. "Trump Tax Proposal Would Make Mortgage Deduction Useless for Most Homeowners." *The Seattle Times.* May 16, 2017. *http://www.seattletimes.com/business/real-estate/trump-tax-proposal-would-make-mortgage-deduction-useless-for-most-homeowners/*. Last visited July 28, 2017.

[1] NMHC tabulations of American Housing Survey microdata (1985–2015).

ability to pay for basic necessities, including food and transportation, and ultimately impacts their future financial success.

This issue is not unique to households receiving federal subsidies and, in fact, is encroaching on the financial well-being of households earning up to 120 percent of area median income. Consider that the median asking rent for an apartment constructed in 2015 was $1,396. For a renter to afford one of those units at the 30 percent of income standard, they would need to earn at least $55,840 annually.[2] As a basis of comparison, the median household income in 2015 was $56,516.[3] Accordingly, this is an issue also impacting those supporting the very fabric of communities nationwide, including teachers, firefighters, nurses and police officers.

Setting aside that real (inflation-adjusted) incomes in the U.S. have been stagnant for the past three decades—clearly the key factor driving the affordability crisis—housing industry leaders agree that promoting construction, preservation and rehabilitation are three of the vital ways to meet the surging demand for apartment homes.

Changing Housing Dynamics

The U.S. is in the midst of a fundamental shift in our housing dynamics as changing demographics and housing preferences drive more people toward renting as their housing of choice. Today, demand for apartments is at unprecedented levels as the number of renters has reached an all-time high. Since 2010, the number of renter households has increased by an average of more than 800,000 annually—almost as much as 1.2 million a year, by some measures.[4] Meanwhile, apartment vacancy rates as measured by MPF Research fell or remained the same for 7 straight years from 2009 to 2016.[5]

Changing demographics are driving the demand for apartments. Married couples with children now represent only 19 percent of households. Single-person households (28 percent), single parent households (9 percent) and roommates (7 percent) collectively account for 43 percent of all households, and these households are more likely to rent.[6] Moreover, the surge toward rental housing cuts across generations. In fact, nearly 73 million Baby Boomers (those born between 1946 and 1964), as well as other empty nesters, have the option of downsizing as their children leave the house and many will choose the convenience of renting.[7] Over half (58.6 percent) of the net increase in renter households from 2006 to 2016 came from householders 45 years or older.[8]

Unfortunately, the supply of new apartments is falling well short of demand. Just-released research by Hoyt Advisory Services, Dinn Focused Marketing, Inc. and Whitegate Real Estate Advisors, LLC, *U.S. Apartment Demand—A Forward Look,* commissioned by NMHC/NAA shows that the nation will need 4.6 million new apartments by 2030, or an average of 328,000 units a year.[9] Just 244,000 apartments were delivered from 2012–2016.[10]

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[2] NMHC calculation based on U.S. Census Bureau, *Survey of Market Absorption Detailed Tables,* Table 2.

[3] U.S. Census Bureau, Current Population Survey, 2015 and 2016 Annual Social and Economic Supplements.

[4] NMHC tabulations of American Community Survey and Current Population Survey microdata.

[5] MPF Research.

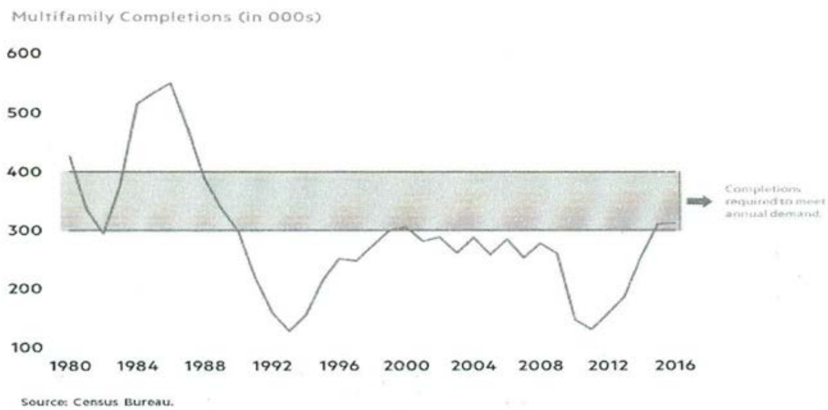
[6] 2015 Current Population Survey, Annual Social and Economic Supplement, U.S. Census Bureau, “America's Families and Living Arrangements: 2015: Households” (H table series), table H3/Family groups (FG series), table FG6.

[7] Annual Estimates of the Resident Population by Single Year of Age and Sex for the United States: April 1, 2010 to July 1, 2015, U.S. Census Bureau. Baby Boomers are defined as those born 1946 through 1964.

[8] NMHC tabulations of 2016 Current Population Survey, Annual Social and Economic Supplement, U.S. Census Bureau.

[9] Hoyt Advisory Services, Dinn Focused Marketing, Inc., and Whitegate Real Estate Advisors, LLC, *U.S. Apartment Demand—A Forward Look,* May 2017, p. 38.

[10] NMHC tabulations of 2016 Current Population Survey, Annual Social and Economic Supplement, U.S. Census Bureau.



Building more apartment homes will help improve the supply-demand imbalance that drives these affordability challenges, but developers and localities must work together to remove obstacles to development. Even if local officials and planning boards agree that new, affordable apartments must be built, land costs, entitlement expenditures, labor expenses, building materials and property taxes all contribute to making their construction extremely costly.

Why Are Rents so High?

As the discussion above demonstrates, the nation faces a significant shortage of affordable rental housing. Addressing this challenge will require new development and the preservation and rehabilitation of the existing housing stock. Barriers to these activities, described below, only serve to slow down the market response to our housing supply challenges. Before discussing these barriers, however, it is worthwhile to assess the reasons why Americans are facing high rents and why there is too little available rental housing that is affordable.

First and foremost, America's housing affordability issue is more than just a housing problem. It is not only that rental housing has gotten more expensive to produce and operate, but also that other economic factors have suppressed household income growth. On an inflation-adjusted basis, median renter household income today is little changed from its 1980 level.

Because income stagnation is such a significant part of the equation, simply building more housing cannot be the sole solution to this affordable housing shortage. In fact, in many markets where demand is strongest, even if, hypothetically, developers agreed to take no profit, the cost to build still exceeds what people can afford to pay.

Second, today's strong rent growth is a temporary situation in what is a highly cyclical market driven by factors largely outside of the industry's control. For example, the collapse of the U.S. financial markets in 2008 virtually shut down new apartment construction for a number of years, severely constricting supply right at a time when rental demand surged to levels not seen for decades. Development is only now beginning to meet the annual increase in apartment demand.

Finally, as mentioned above, apartment construction has increased. As new units are delivered, rent growth will moderate. That said, even with more apartments in the pipeline, construction activity remains, at best, at the low end of the level needed to make up for supply deficits in previous years. Many non-financial obstacles to new development continue to stifle new construction and raise the costs of those properties that do get built, contributing to higher rents for our residents. Many of these are imposed by localities and have to be addressed by those jurisdictions.

Barriers to Multifamily Development

Developing real estate, whether it is multifamily, single-family or commercial, is difficult. Production of any kind has its natural barriers. Those are, for the most part, objective barriers that can, and often do, fluctuate, but are predictable enough to still meet a pro forma. Multifamily however, brings with it a level of entitlement subjectivity layered on top of these common barriers and is much more difficult to predict.

Plainly stated, many municipalities have a development preference that works against multifamily housing production. Multifamily development often faces stiff community resistance, competes with other forms of real estate that produce sales tax revenue desired by municipalities, and is subject to increasing regulatory barriers.

Community resistance to proposed multifamily developments typically takes the form of organized community resistance efforts commonly known as "Not In My Back Yard" or NIMBY. The narrative of NIMBY typically focuses on a handful of themes outside of the normal zoning approval process, including:

- ➢ Traffic impact;
- ➢ Homeowner property values;
- ➢ School overcrowding; and
- ➢ Community character.

There is also a revenue subjectivity often found at the municipal level when it comes to multifamily versus other forms of real estate. Local governments faced with the annual task of balancing budgets feel obligated to derive as much tax revenue as possible from scarce developable land. This places multifamily in stiff competition with commercial real estate developments that produce sales tax revenue.

All these factors contribute to the uncertainty of any multifamily development. In a speech before the Urban Institute in November 2015, Jason Furman, then chairman of The White House Council of Economic Advisers for President Obama, said that the U.S. could build a lot more apartments, but noted "multifamily housing units are the form of housing supply that is most often the target of regulation." As an industry, we agree with this assessment.

Below is a brief summary of the most notable barriers to development within several broad categories: location, time, bureaucracy, cost and environmental assessment. Also included is a brief review of affordability mandates, which can actually depress development of new multifamily homes.

Location

- ➢ **Land Cost:** In an attractive market—take any major metropolitan area as an example—land can account for a significant portion of total development costs. This cost increase can stretch or stress other financial assumptions and, in some extreme cases, even make the property impossible right out of the gate.
- ➢ **Zoning Laws:** Zoning laws impact what is permitted to be built at a site. In some places, zoning requirements can make it extremely difficult to build new multifamily housing. Changing zoning can be onerous and expensive if it is even possible.

Time

- ➢ **Entitlements:** The entitlement process, which covers approvals, zoning and nearly everything in between, is an amalgam of outright costs, additional fees, land-use regulation and code compliance. During the navigation of this often-lengthy process, an apartment developer bears both direct and indirect costs with no assurance of a successful outcome. The long lead time and significant upfront investment required to obtain entitlement on land is leading some investors to rethink continued interest in multifamily development. Reduced investor demand for multifamily development may lead to fewer units delivered in the future and increased cost per unit delivered as remaining investor capital becomes scarce.

Bureaucracy

- ➢ **Regulations:** Like all of real estate, the apartment industry is governed by a flood of regulations issued by many diverse federal agencies, as well as state and local governments. Excessive regulation and compliance uncertainty results in costly mandates that divert resources from the production and operation of multifamily housing.

  Regulations must have demonstrable benefits that justify the cost of compliance, and federal agencies should be aware that broad-stroke regulations often have disproportionate effects on various industries. Therefore, those rules and regulations affecting housing should reflect the industry's diverse business and operational structure and must rely on the latest scientific and/or economic evidence.

Cost

- **Construction Costs:** The cost of construction in terms of labor and materials is a critical component to the cost of building apartments. Depending upon market and materials used, these have a significant impact on the viability of a given project.
- **Cost of Capital:** New regulatory regimes, such as Dodd-Frank and Basel III, are making access to capital more difficult and costlier. Increased capital requirements and conflicting new regulations are driving up the cost of borrowing from banks, as well as constricting lending in certain markets.
- **Labor Costs:** Federal building programs, as well as some state level programs, require the use of prevailing Davis-Bacon wages that have proven to be difficult to manage, complex to accurately incorporate in preliminary planning and often do not reflect the going market. Additionally, as a result of the economic downturn, skilled labor migrated away from the construction industry, producing an environment today where wages have increased well in excess of inflation, which directly impacts the cost of development.
- **Impact Fees:** Impact fees are payments required of new development by local governments to providing new or expanded public capital facilities required to serve that development. These fees typically require cash payments in advance of the completion of development, are based on a methodology and calculation derived from the cost of the facility and the nature and size of the development, and are used to finance improvements offsite from, but to the benefit of, the development.
- **Linkage Fees:** A linkage fee is assessed on a development to pay for the cost of providing a public service. These fees are attributed to select developments to pay for a benefit deemed outside of what is recovered from property taxes.
- **Business License Taxes:** These are additional municipal taxes assessed on property owners that are not assessed on other forms of housing. They are used to justify the cost of impacts not covered by property tax assessments.
- **Assessment and Inspection Fees:** These are additional municipal fees assessed on property owners to inspect rental housing for habitability. While these fees are often assessed annually, the rental housing communities often do not realize additional benefits reflecting the cost.
- **Parking Space Requirements:** The requirement to build or offer parking spaces, especially in urban settings, can significantly impact site use and cost.

Environmental Assessment

- **Environmental Site Assessment:** An environmental site assessment is a report that identifies potential or existing environmental contamination liabilities. In many local jurisdictions, each development site requires an environmental site assessment, the results of which could require costly remediation and/or project reconfiguration. Additionally, these assessments have been used by development opponents to frustrate planning and can serve to severely hamper or defeat the entitlement process.

Affordability Mandates

- **Rent Control:** There are various forms of rent control outside of the traditional version that most are accustomed to seeing: a rent control board that sets maximum rent for a unit or the maximum amount that rent can be raised annually. Rent control, in this context, is any mechanism that obligates a property owner to set rental rates for all or a portion of the units on a property. In any form, this policy works as a disincentive to investing and developing the diversity of housing units that a community requires. There are alternatives to rent control, such as mandatory inclusionary zoning, that take slightly different approaches but have the same effect.
- **Mandatory Inclusionary Zoning:** Mandatory inclusionary zoning refers to municipal and county planning ordinances that require a given share of new construction to be affordable to people with low to moderate incomes without an investment from the municipality. It is normally a condition of approval of the development. Depending on the requirements, the overall feasibility of a project could be threatened.

Bottom Line for Policymakers

The bottom line is that policymakers at all levels of government must recognize that addressing local housing affordability needs requires a partnership between government and the private sector. Municipalities have the difficult task of trying to most efficiently manage their resources to the greatest benefit of their constituents, often challenged with balancing shrinking budgets and growing needs. However, local governments also have a tool box of approaches they can take to support affordable housing production. They can do this by incentivizing for-profit entities to produce the necessary multifamily units at a price point that households can afford.

Municipalities can defer taxes and other fees for a set period of time to help the developer reduce the price point. They also own tangible assets—buildings, raw land and entitled parcels—some of which can be leveraged to bring down the cost of construction or redevelopment. Finally, they can help streamline the development and approval processes with fast-tracking programs.

As is outlined in the following section, however, the Federal Government also has a key role to play. When both the public and private sides bring all their tools and assets into play, there will be a greater likelihood of finding viable solutions to meet our rental housing challenges.

Key Federal Solutions to the Nation's Housing Challenges

The nation's challenge is to reduce the barriers and obstacles that inhibit the expansion of the housing stock. While the preceding section made it clear that new construction is often impeded at the local level, there are federal solutions that may be beneficial as well. At NMHC/NAA, we believe the solution at the federal level requires a three-pronged answer of new development, preservation and rehabilitation:

1. ***New development* is absolutely critical to address the scarcity of units available for the population of Americans whose household incomes are below the average for their areas—and the one receiving much of attention and criticism.**
2. ***Preservation* means ensuring that the financing and subsidy programs that currently keep units available at below market rents continue to be there in the future, providing some degree of certainty in the affordable housing market.**
3. ***Rehabilitation* is vital because it can keep existing apartment stock from dwindling further.**

Federal Initiatives and Programs Vital to Addressing Affordability

Congress should play an integral role in addressing housing affordability. The Senate Finance Committee has jurisdiction over the Low-Income Housing Tax Credit (LIHTC), the nation's singular tool for developing new affordable housing. The Finance Committee is currently also keenly focused on tax reform. In the sections below, NMHC/NAA make recommendations with regard to both the LIHTC and tax reform. We also then examine programs outside of the Finance Committee's jurisdiction.

Programs Within the Finance Committee's Jurisdiction

Expand and Enhance the Low-Income Housing Tax Credit (LIHTC) and Enact the Middle-Income Housing Tax Credit (MIHTC) to Support Workforce Housing

The Low-Income Housing Tax Credit (LIHTC) has a long history of successfully generating the capital needed to produce low-income housing while also enjoying broad bipartisan support in Congress. This public/private partnership program has led to the construction of nearly 3 million units since its inception in 1986. It is the nation's principal driver of new affordable housing.

The LIHTC program also allocates units to low-income residents while helping to boost the economy. According to a December 2014 Department of Housing using and Urban Development study, *Understanding Whom the LIHTC Program Serves: Tenants in LIHTC Units as of December 31, 2012,* the median Income of a household residing in a LIHTC unit was $17,066 with just under two-thirds of residents earning 40 percent or less of area median income.[11] Finally, the National Association of Home Builders reports that, in a typical year, LIHTC development supports approximately: 95,700 jobs; $3.5 billion in federal, state and local taxes; and $9.1 billion in wages and business income.[12]

Maintaining and bolstering the LIHTC's ability to both construct and rehab affordable housing is critical given acute supply shortages. Indeed, the Harvard Joint Center for Housing Studies estimated that there were only 45 affordable units for every 100 very low-income households (those earning up to 50 percent of area median income) in the United States in 2015.[13]

First and foremost, Congress should retain the LIHTC as part of any tax reform legislation. In so doing, Congress must take care to offset any reduction in equity LIHTC could raise attributable to a reduction in the corporate tax rate. Furthermore, NMHC/NAA reminds Congress that tax-exempt private activity multifamily housing bonds are often paired with 4 percent tax credits to finance multifamily development, and that such tax-exempt bonds should be retained in any tax reform legislation as they play a critical role in making deals viable to investors.

Second, Congress should also look to strengthen the credit by both increasing program resources so that additional units can be developed or redeveloped and making targeted improvements to the program to improve its efficiency. Congress could increase program authority by allocating additional tax credits. Further, program rules should be adjusted that require owners to either rent 40 percent of their units to households earning no more than 60 percent of area median income (AMI) or 20 percent to those earning no more than 50 percent of AMI. If program rules were revised to allow owners to reserve 40 percent of the units for people whose average income is below 60 percent of AMI, it could serve a wider array of households.

In this regard, the multifamily industry strongly supports the Affordable Housing Credit Improvement Act of 2017 (S. 548) and commends Senator Cantwell and Chairman Hatch for its introduction. We also thank Finance Committee Senators Wyden, Bennet, Heller, Isakson and Portman for their cosponsorship. This legislation, which would increase tax credit allocations by 5.0 percent, would enable LIHTC to help build or preserve 1.3 million units over 10 years, 400,000 more units than is possible under current law. The measure also includes the income averaging proposal.

Finally, we would also urge the Committee to strongly consider the Middle-Income Housing Tax Credit Act of 2016 (S. 3384) that Ranking Member Wyden introduced during the 114th Congress to address the shortage of workforce housing available to American households. A worthy complement of measures to expand and improve LIHTC, the Middle-Income Housing Tax Credit (MIHTC) takes over where LIHTC leaves off. LIHTC is currently designed to serve populations of up to 60 percent of area median income. MIHTC is designed to benefit populations earning below 100 percent of area median income. In fact, approximately 40 percent of renter households earning between $35,000 and $49,999 were cost burdened in 2015. This population is exactly the one Ranking Member Wyden's legislation would serve.

Tax Reform Must Not Disrupt the Industry's Ability to Construct and Operate Housing Across All Income Levels

Congress is rightly continuing to develop proposals to reform the nation's overly complex tax code to foster economic competitiveness and economic growth. That said, much is potentially at stake for the apartment industry and its ability to meet the nation's multifamily housing needs given that apartment firms pay tax when they build, operate, sell or transfer communities to their heirs. We believe that any tax reform legislation should not disrupt the industry's ability to construct and operate affordable and, workforce housing and, therefore, must:

➢ **Protect Flow-Through Entities.** The multifamily industry is dominated by "flow-through" entities (*e.g.,* LLCs, partnerships, S Corporations, etc.) instead

[11] Department of Housing and Urban Development, "Understanding Whom the LIHTC Program Serves: Tenants in LIHTC Units as of December 31, 2012," December 2014, p. 23.

[12] Robert Dietz, *The Economic Impact of the Affordable Housing Credit,* National Association of Home Builders, Eye on Housing, July 15, 2014. *http://eyeonhousing.org/2014/07/the-economic-impact-of-the-affordable-housing-credit/*.

[13] NMHC tabulations of 2015 American Community Survey public use microdata, IPUMS–USA, University of Minnesota, *www.ipums.org.*

of publicly held corporations. This means that the company's earnings are passed through to the partners who pay taxes on their share of the earnings on their individual tax returns. Accordingly, Congress must not reduce corporate tax rates financed by forcing flow-through entities to pay higher taxes through subjecting them to a corporate-level tax or by denying credits and deductions.

- **Maintain Like-Kind Exchanges.** Like-kind exchange rules enable property owners to defer capital gains tax if, instead of selling their property, they exchange it for another comparable property. These rules encourage property owners to remain invested in the real estate market while providing them with the flexibility to shift resources to more productive properties, different geographic locations or to diversify or consolidate holdings. Any proposal to revise or restrict like-kind exchanges may have a significantly harmful effect on the value and trading of property. As a result, Congress should not change present law.
- **Ensure Depreciation Rules Avoid Harming Real Estate.** Cost recovery rules should reflect the life of properties. Depreciation periods that overstate economic lives would reduce development and investment, leading to lower real estate values and stifling the industry's role in job creation. Tax reform should reflect the critical role cost recovery plays in our ability to create new jobs.
- **Retain the Deduction for Business Interest.** Efforts to prevent companies from overleveraging are leading to calls to scale back the current deduction for business interest expenses. Unfortunately, reducing this deductibility would greatly increase the cost of debt financing necessary for large-scale projects, curbing development activity when the nation is suffering from a shortage of apartment homes.

Programs Outside of the Finance Committee's Jurisdiction

GSE Reform

While outside of the Finance Committee's purview, the first and foremost priority to addressing housing affordability is getting multifamily right in housing finance reform and recognizing its unique characteristics; it is the single most important factor to ensuring that the apartment industry can meet the nation's growing rental housing demand.

The very successful multifamily programs of the Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, were not part of the 2008 financial meltdown and have actually generated over $26 billion in net profits since the two firms were placed into conservatorship. Preservation of the mortgage liquidity currently provided by the GSEs in all markets during all economic cycles is critical. NMHC/NAA urge lawmakers to recognize the unique needs of the multifamily industry.

We believe the goals of a reformed housing finance system should be to:

- **Maintain an explicit federal guarantee** for multifamily-backed mortgage securities available in all markets at all times;
- **Ensure that the multifamily sector** is treated in a way that recognizes the inherent differences of the multifamily business; and
- **Retain the successful components** of the existing multifamily programs in whatever succeeds them.

These principles can be achieved through a reformed structure that preserves the high quality and value of the current multifamily secondary mortgage market's activities.

Multifamily Federal Housing Administration (FHA) Programs

FHA Multifamily is best known for offering an alternative source of construction debt to developers that supplements bank and other private construction capital sources. It also serves borrowers with long-term investment goals as the only capital provider to offer 35–40 year loan terms. FHA lending is essential to borrowers in secondary markets, borrowers with smaller balance sheets, new development entities, affordable housing developers and non-profit firms, all of which are often overlooked or underserved by private capital providers.

It is important to the apartment industry that FHA continues to be a credible and reliable source of construction and mortgage debt. FHA not only insures mortgages, but it also builds capacity in the market, providing developers with an effective source of construction and long-term mortgage capital. The FHA Multifamily Programs provide a material and important source of capital for underserved segments of the rental market, and do so while maintaining consistently high loan performance standards. NMHC/NAA encourage Congress to continue funding FHA's Multifamily Programs.

Finally, we believe a special note is warranted regarding the 221(d)(4) program. Providing flexible loan terms, is beneficial in supporting the development of workforce and affordable housing. However, we note that the program includes a bevy of restrictions, including loan size, allowable prevailing Davis-Bacon wage requirements, and other associated fees and disbursement restrictions. We ask to have a dialogue with Congress regarding feasible ways to make modest modifications to this program to make it even more effective in encouraging the production of workforce and affordable housing.

Funding for Affordable Housing Programs

Housing costs continue to grow, demand for rental housing continues to escalate, but incomes for many low-income families remain stagnant. Given these realities, demand for subsidized affordable housing has increased dramatically through the economic crisis and into the recovery years since, However, federal funding for the primary programs serving low income households has been virtually flat or declining.

Programs like Tenant Based Section 8 and Project Based Rental Assistance allow low income families to rent market rate housing, taking advantage of the broad offering of privately owned and operated properties in a given market. Meanwhile, programs like HOME and CDBG allow developers to address financing shortfalls often associated with affordable housing properties, and stimulate meaningful development and preservation activity as a result. To address housing affordability challenges for all Americans, across the income spectrum, adequate funding for these programs is essential.

Section 8 Housing Choice Voucher Program

This public-private partnership has the potential to be one of the most effective means of addressing our nation's affordable housing needs and supporting mixed-income communities. However, the program's potential success is limited by too many inefficient and duplicative requirements, which discourage private providers from accepting vouchers. These include a required three-way lease between the provider, resident and the public housing authority; repetitive unit inspections; resident eligibility certification; and other regulatory paperwork. Collectively, these make it more expensive for a private owner to rent to a Section 8 voucher holder.

It is also imperative for lawmakers to reinforce the voluntary nature of the program. Congress specifically made participation voluntary because of the regulatory burdens inherent in the program. However, state and local governments are enacting laws that make it illegal for a private owner to refuse to rent to a Section 8 voucher holder. Recent examples include "source of income discrimination" provisions passed by a number of cities. While often well intentioned, such mandates are self-defeating because they greatly diminish private-market investment and reduce the supply of affordable housing.

Rental Assistance Demonstration (RAD) Program

NMHC/NAA support RAD, which was established in 2011 as an affordable housing preservation strategy for public housing authorities (PHAs). The program allows PHAs to convert public housing properties at risk of obsolescence or underfunding into project-based vouchers or rental assistance contracts under the Section 8 program. Once the units are re-designated from public housing (Section 9 of the 1937 Housing Act) to Section 8 housing, housing authorities are able to leverage private capital to address capital needs. This allows housing authorities to work with private sector developers and managers to preserve their affordable housing stock. RAD is designed to reverse the trend of lost affordable units by accessing private capital to make up for related funding shortfalls.

Government-Supported Preferred Equity

Investor equity for development transactions is the most expensive type of capital. Reducing the required return for this portion of capital would reduce the cost of developing multifamily units and could help spur the construction of additional workforce housing. NMHC/NAA would like to work with Congress on a plan that would enable a federal entity to provide developers with preferred equity to help offset the cost of workforce housing production. NMHC/NAA believe that such a program could be integrated into the very successful multifamily programs run by Fannie Mae and Freddie Mac and implemented at minimal cost.

Modifying the Community Reinvestment Act

The CRA could be modified to include greater incentives for banks to provide loans for multifamily apartments that include workforce and affordable housing. CRA guidelines currently allow banks to obtain Community Development (CD) credit for multifamily units serving occupants with incomes of up to 80 percent of area median income. While this level captures a significant portion of workforce and affordable households, the rules themselves make it difficult to obtain the CD credit due to a requirement to report incomes, information that is not captured.

Davis-Bacon Wage Determination

Under current law, developers must adhere to Davis-Bacon wage rates for construction financed by federal dollars. Unfortunately, the Department of Labor's methodology of determining these so-called prevailing wages suffers from structural defects related to the availability of data. For example, the methodology frequently produces wage rates that exceed prevailing market-based wages, which only exacerbates the cost of developing multifamily housing. NMHC/NAA request that Congress urge the Department of Labor to reexamine and modify its methodology.

Conclusion

In closing, NMHC/NAA look forward to working with the Finance Committee and the entire Congress to address the nation's affordable workforce housing challenges. On behalf of the apartment industry and our 38.8 million residents, we stand ready to work with Congress to ensure that every American has a safe and decent place to call home at a price that enables individuals to afford life's necessities.

NATIONAL TRUST FOR HISTORIC PRESERVATION, NATIONAL TRUST COMMUNITY INVESTMENT CORPORATION, AND HISTORIC TAX CREDIT COALITION

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The Honorable Orrin Hatch
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The Honorable Ron Wyden
Ranking Member
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Re: Affordable Housing Crisis: Challenges and Solutions

Dear Chairman Hatch and Ranking Member Wyden:

The National Trust for Historic Preservation ("National Trust"), the National Trust Community Investment Corporation ("NTCIC"), and the Historic Tax Credit Coalition ("HTCC") are pleased to submit joint comments to the Senate Finance Committee noting the role the federal Historic Tax Credit ("HTC") plays in the production of affordable housing for inclusion in the record for the hearing titled, "Affordable Housing Crisis: Challenges and Solutions" that occurred on August 1, 2017.

The National Trust is a private, nonprofit organization chartered by Congress in 1949 to facilitate public participation in the preservation of our nation's heritage. With headquarters in Washington, DC, 9 field offices, 27 historic sites, more than 1 million members and supporters, and a national network of partners in states, territories, and the District of Columbia, the National Trust works to save America's historic places and advocates for historic preservation as a fundamental value in programs and policies at all levels of government.

NTCIC is a wholly owned for-profit subsidiary of the National Trust and enables tax credit equity investments that support sustainable communities nationwide. NTCIC places qualified tax credits for federal and state historic (HTC), new markets (NMTC), solar (ITC) and low-income housing (LIHTC). Since its inception in 2000, NTCIC has provided tax credit financing of over $1 billion in capital for HTC, NMTC, ITC, and LIHTC investments for 142 transactions with over $4 billion in total development costs.

The HTCC is a nonprofit organization comprising 78 member firms including leading historic tax credit developers, investors, syndicators, tax attorneys, accountants and preservation consultants who came together in 2009 to advocate for the modernization of the HTC. It works to educate Congress, engage with the IRS and the National Park Service on regulatory issues and conduct research on the economic impact of the HTC.

Communities throughout the nation demonstrate time and again the value of historic buildings and neighborhoods in community-strengthening efforts, whether it be producing homes for low-income residents or housing small businesses that are important to a neighborhoods economic vitality. Old and historic buildings are resources that already exist in many communities and can serve as a foundation for an area's housing program. Rehabilitation and maintenance of existing building stock is a key factor in breaking the cycle of deterioration, disinvestment, and loss that reduces our affordable housing supply. Outlined below are several ways of analyzing the value the HTC adds to existing programs that seek to address the lack of affordable housing for too many Americans.

Twinning the HTC With the Low-Income Housing Tax Credit (LIHTC)

A primary way of measuring the impact the HTC has on the production of affordable housing is to examine data on how often the HTC and LIHTC are used together to make an affordable housing transaction feasible when the building is historic. According to the most recent National Council of State Housing Agencies ("NCSHA") statistical report (2014), approximately 95,000 affordable units were completed that year with 5.5 percent of those transactions also utilizing the HTC. That equates to 5,525 affordable units created in historic buildings in 2014.

While statistics on the types of historic properties that are repurposed as affordable housing are not readily available, we know anecdotally that many of these projects involve the rehabilitation of vacant historic schools. These schools are often located in the heart of their communities. The effect of rehabilitating historic schools into affordable housing, as one example, is not only that these residential units are in high demand because of their unique character, but also because of the memories that community residents have of attending these schools. Developers take advantage of these factors to market these properties to local residents while creating a sense of renewal and continuity for the surrounding communities.

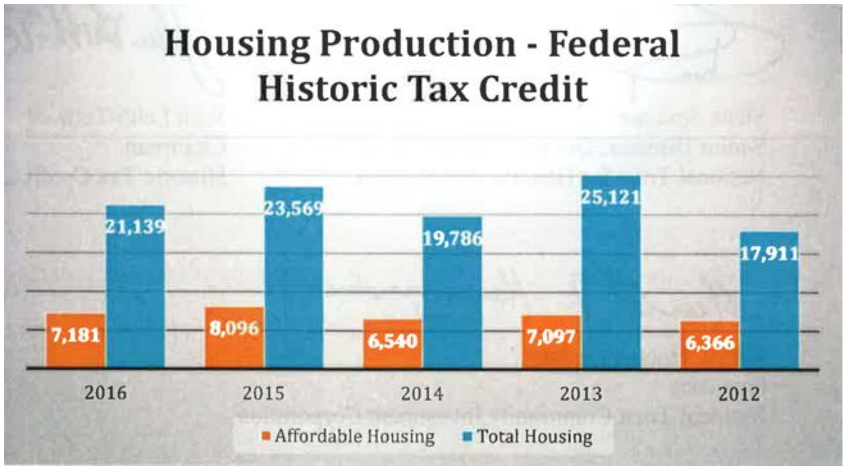
It is important to note that twinning the HTC with the LIHTC helps make historic affordable housing developments possible that likely would not occur using just one of the credits. If only the LIHTC were available, historic properties would likely be passed over or razed in favor of new construction, while if only the HTC were available, most of the housing in historic properties would be unaffordable to low-income families. Each tax credit advances an important public policy objective in its own right, but the ability to twin tax credits enables communities to preserve their heritage and provide needed affordable housing on the same property resulting in reduced NIMBY opposition.

Rutgers University Research on the HTC and Affordable Housing Outcomes

Another way of understanding the HTC's impact on the nation's affordable housing supply is to look the annual analysis conducted by Rutgers University Center for Urban Policy Research for the National Park Service. The FYI 6 report on the economic impact of the HTC indicates that over the life of the federal historic tax credit, roughly half of all HTC transactions produced housing. From 1978 through 2016, the HTC was used to create 549,005 housing units. Of the total units, 153,255, or 28 percent, were affordable to low- and moderate-income families. Further, the 2017 report reflects an increase in the number of affordable units created with HTC financing. Of the 21,139 housing units created utilizing the HTC in 2017, 7,181, or 34 percent, were affordable.

National Park Service Statistical Reports

Another key source of information about the role of the HTC in producing affordable housing comes from NPS's Statistical Reports. The above data indicates the average annual affordable housing production by the HTC is roughly 4,400 units over the past 39 years. However, this number is less than the NCSHA estimate of 5,525 for 2014 alone, which only includes twinned HTC/LIHTC transactions. A look at the National Park Service's statistical reports over the last 5 years shows that the amount of affordable housing units produced in buildings that utilize the HTC is trending up significantly. The NPS data is summarized in the graph below.



The graph indicates that annual affordable housing units associated with the HTC is now in the 7,000–8,000 range. Some of these units result from combining the HTC and LIHTC. Others, however, are financed through a combination of federal and state HTCs and the twinning of historic tax credits with the New Markets Tax Credits in mixed-use buildings.

In summary, historic buildings are well-suited to help meet the nation's affordable housing needs. The units produced are highly attractive in the market place due to the special historic features that are retained as part of the National Park Service's program requirements. As older structures, they are typically found in communities well-served by existing public transit, job centers, utilities and local schools—benefits that are essential for low- and moderate-income households. These developments spur a cycle of renewal in communities that have been left behind. Links to three illustrative case studies from the National Park Service's website can be found below:

https://www.nps.gov/tps/tax-incentives/case-studies.htm#riverside-plaza.

https://www.nps.gov/tps/tax-incentives/case-studies.htm#toms-brook-school.

https://www.nps.gov/tps/tax-incentives/case-studies.htm#rockville-mill.

Thank you for the opportunity to submit these comments. For further information, please contact us at ssprague@savingplaces.org, jlith@ntcic.com, ormhoopengardner @ntcic.org.

Sincerely,

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NEW YORK CITY DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT AND NEW YORK CITY HOUSING DEVELOPMENT CORPORATION

Testimony of

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Chairman Hatch, Ranking Member Wyden, and Members of the Committee: thank you for holding a hearing on one of the most critical issues facing our country—the insufficient supply of safe, decent and affordable housing. We appreciate the opportunity to submit the following comments for the record regarding America's affordable housing crisis and potential solutions.

The New York City Department of Housing Preservation and Development (HPD) and Housing Development Corporation (HDC) are the largest municipal housing agency and leading local housing finance agency in the nation, respectively. Together, HPD and HDC finance the preservation and new construction of affordable housing, enforce housing quality standards to promote the health and safety of all New Yorkers, and ensure sound management of the City's affordable housing stock. As we pursue the goal of connecting people to opportunity through affordable housing, we strongly urge the Committee to protect the Low-Income Housing Tax Credit (Housing Credit) and private activity tax exempt bonds for housing as part of any tax reform effort considered by Congress. Additionally, we offer our comments on the potential benefits of the Affordable Housing Credit Improvement Act, S. 548, which would mark the first meaningful expansion of affordable housing resources in decades.

The Affordable Housing Crisis

The affordable housing crisis is a bipartisan issue impacting cities, states, and rural areas across the country. In New York City, more than half of all renters are cost-burdened, meaning they pay more for rent than they can afford, often at the expense of other necessities like food and healthcare. We know that it is not just renters in high-cost cities like New York facing these terrible tradeoffs. A recent report by the National Low-Income Housing Coalition found only 12 counties nationwide where a minimum wage worker can afford a modest two-bedroom apartment. Nationally, one in four renter households pay more than half of their income on housing costs, leaving more than 11 million families one paycheck away from homelessness.

Ongoing trends in the rental housing market further perpetuate the housing crisis. In New York City in 2011, there were approximately 400,000 homes affordable to the more than 900,000 extremely and very low income households. The shortage in supply of affordable housing drives up rents. Meanwhile, wages haven't kept pace and federal rental subsidy resources are shrinking. To reverse this tide, we need to build more affordable housing. To do that, we must protect and expand the Housing Credit and private activity tax-exempt bonds for multifamily housing.

Benefits of the Housing Credit and Tax-Exempt Bonds

The Housing Credit—including both the 9 percent credit, as well as the 4 percent credit paired with private activity tax-exempt bonds—is the strongest driver of affordable housing in the United States, financing nearly 90 percent of all new construction and preservation. As one of our country's longest standing public-private partnership models, the Housing Credit leverages private investment at a rate of three to one, supports 96,000 jobs per year, and has financed nearly 3 million affordable rental homes nationwide. In New York City alone, Housing Credits and tax-exempt bonds have helped to create or preserve more than 160,000 safe, quality affordable homes for working families and vulnerable populations, such as seniors and homeless families.

Despite this incredible track record, the Housing Credit is in need of expansion and refinement in order to keep up with demand, and to provide housing agencies and their development partners with maximum flexibility in serving the needs in their communities. Each year, viable and much needed affordable housing developments go unbuilt due to the shortage of Housing Credits available and constrained bond cap authority.

Enhancing the Housing Credit: Key Provisions in the Affordable Housing Credit Improvement Act

S. 548 builds upon the most productive aspects of the Housing Credit while proposing changes to strengthen the program by streamlining rules, improving flexibility, and enabling the program to serve a wider array of local needs. Among the many significant improvements included in the bill that HPD and HDC strongly support are:

- A 50 percent increase in per-capita and small state minimum allocations, phased in over 5 years, which is estimated to support production and preservation of an additional 400,000 units nationally over a 10-year period.
- A permanent minimum 4 percent rate for Housing Credits used to finance the acquisition of property or generated by tax-exempt bonds. Minimum credit rates are needed in order to increase the predictability and financial feasibility of affordable housing development and would allow developers to target more units to the lowest income households.
- A new income-averaging election, allowing the current 60 percent of Area Median Income (AMI) ceiling to apply to the average of all apartments within a property, as long as no apartment exceeds a maximum of 80 percent AMI. The higher rents that households with incomes above 60 percent of AMI could afford have the potential to offset lower rents for households below 30 or 40 percent of AMI, allowing developments to maintain financial feasibility while providing a deeper level of affordability.
- A provision that gives housing agencies discretion to provide basis boosts for tax-exempt bond financed developments, allowing more of these developments to be financially feasible, and for developments serving very low income households.

We strongly support all proposed enhancements to the Housing Credit in S. 548 as ways to help meet the growing need for affordable housing. In addition, we are pleased to share additional proposals to complement the Housing Credit.

Proposals to Increase Private Activity Tax-Exempt Bond Volume Cap

Private activity tax-exempt bonds are essential to the success of the Housing Credit, helping to finance roughly 40 percent of Housing Credit properties nationwide. In states like New York, affordable housing development is constrained by insufficient private activity bond cap and limits on the use of recycled bonds.

New York State uses essentially all private activity bond volume cap allocated to it each year. With ambitious housing plans at the city and state level, and an aggressive preservation plan for the City's Public Housing Authority, increased demand for volume cap creates challenges in meeting the City's affordable housing pipeline's financing needs. Two ways to increase volume cap in order to meet these important priorities are making technical changes to bond recycling and creating a national reallocation pool for unused private activity bond volume cap.

Bond Recycling

As of the passage of the Housing and Economic Recovery Act of 2008 (HERA), tax-exempt, multifamily housing revenue bonds can be recycled to finance new development activity without the need for new private activity bond volume cap. Under the law, if a loan that was financed by new volume cap bonds is repaid within 4 years from the original issue date of the bonds, then a housing finance agency such as HDC has 6 months to recycle the bonds and use the proceeds to make a new loan for another housing project. Unlike new volume cap bonds, recycled bonds do not generate 4 percent Housing Credits.

HDC currently issues more than $300M per year in recycled bonds. It is estimated that the following changes would allow for $100M–$200M more in recycled bonds in New York State each year. Additionally, these changes will allow for most, if not all, new volume cap to be used for multifamily housing (thus generating 4 percent Housing Credits) without reducing other eligible private activity financings such as industrial development and single family mortgage revenue bonds:

- Permit recycled bonds to finance economic development projects in addition to multifamily rental housing.

- Extend the period during which tax-exempt, multifamily housing revenue bonds can be recycled from 6 months to 1 year after repayment, as it is often difficult to close a new project's financing within the current window.
- Allow housing agencies to recycle more than once within the existing 4-year time limit from original issue.
- Permit recycled bonds to be used in conjunction with 9 percent Housing Credits in order to help finance projects where bank debt is too expensive.

National Reallocation Pool for Unused Bond Volume Cap

A growing list of states use the entire private activity bond cap allotted to them every year, leaving shovel ready affordable housing developments unbuilt. Meanwhile, other states burn off unused bond cap. Creating a National Reallocation Pool for unused volume cap assures that critical housing resources are efficiently redeployed to areas with the most immediate need and capacity for affordable housing development and preservation efforts.

Under current law, unused private activity bond volume cap either expires or may be carried forward for just 3 years, after which it expires. Unused volume cap and carryforward is not available for projects in other states, and approximately $10B in volume cap is burned off nationally each year. To induce more private investment to help meet the growing demand for affordable rental housing, and to more efficiently and effectively utilize federal resources, we propose creating a private activity bond cap national reallocation pool for affordable housing. This pool would allow states and localities with affordable housing projects in their pipeline to recapture unused cap from other locations. The reallocation of cap could be similar in structure to the reallocation of the national pool of unused Low Income Housing Tax Credit authority and the competitive allocation process for the Housing Credit dollar amount.

We look forward to partnering with Congress and our housing colleagues nationwide to pursue these and other innovations that could provide additional support in addressing the affordable housing crisis.

Importance of Additional Federal Housing Resources

As Congress continues with federal budget negotiations, it is crucial to note the importance of funding for affordable housing programs of the Department of Housing and Urban Development (HUD) and the Department of Agriculture. Without adequate funds for public housing, rental assistance, HOME Investment Partnerships, rural development and Community Development Block Grants, we cannot fully address housing needs across this country. In fact, these programs serve as an essential complement to the Housing Credit, as most affordable housing is financed through a combination of HUD program resources and credits.

Asset Management and Oversight

As affordable housing practitioners, we share the Committee's commitment to transparency and oversight in the Housing Credit Program. State allocating agencies, syndicators and local housing agencies already adhere to the strict requirements of the program and, in many cases, exceed those with even more stringent local standards. We applaud the work of organizations like the National Council of State Housing Agencies (NCSHA) in sharing best practices across the industry to ensure the program is managed properly and all commitments to affordability are honored throughout the life of the projects under our purview.

In closing, we again thank the Committee for keeping affordable housing at the center of ongoing discussions around comprehensive tax reform and consideration of federal spending commitments in the coming years.

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Does Housing Affordability Argue for Subsidizing the Construction of Tax Credit Projects?

The Low-Income Housing Tax Credit (LIHTC) is the largest and fastest growing low-income housing program. It subsidizes the construction and renovation of more

*This paper reflects the views of its author. It does not represent the official position of the University of Virginia. The University does not have an official position on low-income housing policy. It is a revised version of a paper presented at a conference on housing affordability at units each year than all other government programs combined. The tax credits themselves involved a tax expenditure of about $6 billion in 2015 and new commitments of about $7.5 billion. However, these projects receive additional development subsidies from state and local governments, usually funded through federal intergovernmental grants, accounting for one-third of total development subsidies (Cummings and DiPasquale 1999). Therefore, the total development subsidies associated with the new commitments were about $11 billion. Furthermore, many tax credit projects involve substantial renovations of older HUD and USDA housing projects that continue to receive deep subsidies from the programs involved, and many tax credit units are occupied by households with tenant-based housing vouchers that provide owners with additional revenue. GAO (1997) found that owners of tax-credit projects received subsidies in the form of project based or tenant-based rental assistance on behalf of 40 percent of their tenants. More recent evidence for 10 states suggests an even higher fraction (O'Regan and Horn 2015). To the best of my knowledge, the magnitude of these subsidies has never been documented. If their per-unit cost were equal to the per-unit cost of tenant-based housing vouchers in 2015, they would have added about $7.5 billion a year to the cost of the tax-credit program. A program of this magnitude merits much more critical scrutiny than it has received to date.

Proposed legislation in the Senate would greatly expand the tax credit program, indeed, increase the number of units built or renovated by 50 percent.[1] This is billed as a solution to a housing affordability problem described in terms of the many households that devote a large fraction of their income to housing. The report that attempts to justify the expansion also argues that the expansion is necessary to house the homeless who clearly have a housing affordability problem.[2] Neither argument holds water.

Building new projects is a very expensive solution to the housing affordability problem described. We don't need to build new housing projects to help households that spend a large fraction of their income on housing. They are already housed. If we think that their housing is unaffordable, the cheapest solution is for the government to pay a part of the rent. HUD's housing voucher program does just that at a much lower cost than the tax credit program.

Furthermore, it's neither necessary nor desirable to construct new units to house the homeless. The number of people who are homeless is far less than the number of vacant units—indeed, far less than the number of vacant units renting for less than the median. In the entire country, there are only about 600,000 homeless people on a single night and more than 3 million vacant units available for rent.[3] Even if all homeless people were single, they could easily be accommodated in vacant existing units, and that would be much less expensive than building new units for them. The reason that they are homeless is that they don't have the money to pay the rent for existing vacant units. A housing voucher would solve that problem. A major HUD-funded random assignment experiment called the Family Options Study compared the cost and effectiveness of housing vouchers and subsidized housing projects for serving the homeless.[4] Transitional housing projects were far less effective and much more expensive than short-term housing vouchers.

The evidence indicates that the tenant-based housing voucher program is by far the most cost effective approach to delivering housing assistance.[5] The best study of HUD's largest program that subsidized the construction of privately owned projects indicated the total cost of providing housing under this program was at least 44 percent greater than the total cost of providing equally good housing under the housing voucher program (Wallace and others 1981). This translated into excessive taxpayer cost of at least 72 percent for the same outcome. It implies that housing vouchers could have served all the people served by this program equally well and served at

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the American Enterprise Institute on April 6, 2017 sponsored by the American Enterprise Institute, Bank of Israel, Board of Governors of the Federal Reserve System, Tel Aviv University, and UCLA.

[1] *https://www.congress.gov/bill/115th-congress/senate-bill/548.*

[2] *https://www.cantwell.senate.gov/imo/media/doc/Senator%20Cantwell%20LIHTC%20Report.pdf.*

[3] *https://www.hudexchange.info/resources/documents/2015-AHAR-Part-1.pdf.*
https://fred.stlouisfed.org/series/ERENTUSQ176N.

[4] *https://www.huduser.gov/portal/sites/default/files/pdf/Family-Options-Study-Full-Report.pdf.*

[5] Olsen (2008, pp. 9–15) summarizes the evidence.

least 72 percent more people with the same characteristics without any increase in public spending.

We don't have a cost-effectiveness study of this quality for the LIHTC program. The best evidence available suggests that tax credit projects cost 16% more than the voucher program to provide units with the same number of bedrooms in the same metro area (GAO 2001). This is almost surely an underestimate because it omits some of the public subsidies to developers of tax credit projects such as land sold to them by local governments at below-market prices, local property tax abatements received by some developers, and later subsidies for renovating the projects.

The best evidence available also indicates that occupants of tax credit projects capture a small fraction of the subsidies provided to developers. Burge (2011, p. 91) finds that the present value of the rent saving to tenants (the difference between the market rent of the unit and the rent paid by its tenant) is only 35% of the present value of the tax credits provided to developers. Combining this result with Cummings and Di Pasquale's finding that tax credits account for about two-thirds of development subsidies for tax credit projects leads to the conclusion that tenants capture at most 24% of the development subsidies.

A recent PBS Frontline documentary called "Poverty, Politics, and Profit" illustrates one of the reasons for this outcome, namely, LIHTC fraud.[6] A follow-up piece with NPR, Department of Justice news releases, and articles in *The Miami Herald* provide more details.[7] One investigation of several developers revealed excess subsidies of $36 million for 14 projects.[8] Because subsidies are proportional to development cost, developers have an incentive to overstate them. In the fraud uncovered in this investigation, the developer who was awarded tax credits persuaded contractors to provide inflated bids for their work on the projects combined with kickbacks to the developers. Due to the difficulty of determining true development cost and lax enforcement by state housing agencies, developers succeed in greatly overstating them. Because the fraud involved is difficult to detect, the few cases uncovered so far are surely the tip of the iceberg.[9] Recent investigations have uncovered fraud in Los Angeles, New York City, Dallas, and Maine, and other investigations are underway.[10]

The reasons for the excess cost of tax credit projects go beyond fraud. The combination of programs that provide subsidies to them offer excess profits to honest developers (that is, much larger profits than can be earned in the unsubsidized market) and distortions in the combination of inputs used to provide housing (specifically, expensive new buildings that are built on inexpensive land and poorly maintained). The excess profits explain why many more developers submit proposals than can be funded with the tax credits allocated to the state. It's why developers of tax credit projects spend so much on their proposals. It's why almost all commit all of the units in their buildings to the tax credit program. It's why some pay bribes to get their projects approved. The layering of subsidies on tax credit projects makes it particularly difficult to prevent excess profits.

Clearly, Congress should not authorize the expansion of the tax credit program unless existing evidence on the cost-effectiveness of the tax credit program is far from the mark. If Congress wants to serve additional households, it should expand the much more cost-effective housing voucher program. Furthermore, given the large current public spending on tax credit projects, Congress should insist on, and appro-

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[6] *http://www.pbs.org/video/3000723710/.*

[7] *http://www.npr.org/2017/05/09/527046451/affordable-housing-program-costs-more-shelters-less.*

https://www.justice.gov/usao-sdfl/pr/seven-defendants-sentenced-federally-their-role-36-million-fraud-scheme-involving-low.

http://www.miamiherald.com/news/local/community/miami-dade/article29949909.html.

[8] *https://www.justice.gov/usao-sdfl/pr/seven-defendants-sentenced-federally-their-role-36-million-fraud-scheme-involving-low.*

[9] Since LIHTC has subsidized the construction and renovation of more than 40,000 projects, it is reasonable to believe that fraud has accounted for a substantial sum over the program's history.

[10] *http://www.latimes.com/local/lanow/la-me-ln-housing-indictment-20160205-story.html.*

https://www.justice.gov/usao-edny/pr/real-estate-developer-sentenced-6-months-imprisonment-soliciting-300000-kickbacks-nyc.

https://www.justice.gov/archive/usao/txn/PressRel10/DCC_potashnik_brian_cheryl_sen_pr.html.

http://www.pressherald.com/2016/04/14/maine-man-admits-embezzling-80000-in-low-income-housing-funds/.

https://www.bizjournals.com/southflorida/news/2017/06/16/federal-investigation-widens-into-affordable.html.

priate the money for, independent analyses of the highest quality that compare the cost-effectiveness of housing vouchers with the various types of tax credit projects, including ones that renovate private and public housing projects built under HUD and USDA programs. The cost of these studies would be trivial compared with public spending on tax credit projects.

It's often argued that the large expense of subsidizing the construction of new tax credit projects is justified by low vacancy rates that prevent potential recipients from using housing vouchers. Table 1 shows that the location of new tax credit projects is inconsistent with this justification. The construction of tax credit projects is not focused on metro areas with low vacancy rates. Over the past decade, the majority of tax credit units were built in metro areas with vacancy rates in excess of 8%. Almost 40% of all tax credit units were built in metro areas with vacancy rates in excess of 10%. The location of tax credit projects indicates that market tightness is not a serious argument for the tax credit program.

Table 1. Tax Credit Units v. Vacancy Rates

75 largest metro areas, HVS vacancy rates, 2005–2014

Vacancy Rate (%)	Tax Credit Units Placed in Service	Tax Credit Units as % of Occupied Rental Units
2.0–3.9	13,931	0.24
4.0–5.9	117,729	0.20
6.0–7.9	145,076	0.27
8.0–9.9	84,894	0.21
10.0–	223,220	0.25
Total	584,850	0.24

Note: Each observation refers to a single metro area in one year.
Sources: Vacancy rates, *https://www.census.gov/housing/hvs/data/ann15ind.html.*
Tax credit units placed in service, *https://www.huduser.gov/portal/datasets/lihtc.html.*
Occupied rental units, *http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml.*

Furthermore, there are good reasons to expect that subsidized construction will work poorly in tight housing markets because it crowds out unsubsidized construction to a considerable extent. When vacancy rates are low in a market, rents will be high. This is when unsubsidized construction will be most profitable. In the absence of subsidized construction, unsubsidized construction would be high, and unemployment among construction workers and equipment would be low. Subsidized construction would divert workers and equipment from unsubsidized construction.

The evidence indicates that subsidized construction largely crowds out the unsubsidized housing stock to a considerable extent (Murray 1983, 1999, Malpezzi and Vandell 2002, Sinai and Waldfogel 2005, and Eriksen and Rosenthal 2010). In tight markets, it mainly crowds out unsubsidized construction. In markets with high vacancy rates, it mainly results in the withdrawal of existing units from the housing stock.

It's reasonable to believe that all subsidized housing programs lead to some increase in the number of dwelling units by increasing the demand for distinct units. The offer of housing assistance of any type induces some individuals and families living with others to live in their own units. Abt et al. (2006, pp. 23, 76) indicate that about 26 percent of the families on the housing voucher waiting list were living with friends or relatives and 2 percent were living in a homeless shelter or transitional housing, and voucher usage resulted in corresponding decreases in these numbers. Since doubling up and homelessness are more common among the poorest households, the programs that serve the poorest households will have the greatest net effect on the number of housing units. The voucher program serves somewhat poorer households than public housing and much poorer households than privately owned subsidized projects as judged by per-capita household income (Picture of Subsidized Households).[11] Consistent with this explanation, Sinai and Waldfogel (2005) find that tenant-based vouchers lead to a larger increase in the housing stock than construction programs. This phenomenon also explains Eriksen and Rosenthal's finding of almost complete crowd out for the LIHTC. This program serves families with much higher incomes than the other programs.

[11] *https://www.huduser.gov/portal/datasets/assthsg.html.*

Contrary to popular perceptions, housing vouchers work reasonably well in tight housing markets. Many families offered vouchers already occupy apartments meeting the program's standards. We don't need vacant apartments for these families. They can participate without moving. Other families offered vouchers live in housing that doesn't meet program's minimum housing standards, but their landlords are willing to repair them to meet the standards. Similarly, vacant apartments that do not initially meet the program's standards can be upgraded to meet them. About half of the units occupied by voucher recipients were repaired to meet the program's minimum housing standards (Kennedy and Finkel 1994). The tenant-based voucher program substantially increases the supply of apartments meeting minimum housing standards without building new units for the households involved.

The Housing Assistance Supply Experiment of the Experimental Housing Allowance Program (EHAP) provides additional evidence on the ability of tenant-based vouchers to increase the supply of apartments meeting minimum housing standards even in tight housing markets.[12] The Supply Experiment involved operating an entitlement tenant-based housing allowance program in two metropolitan areas for 10 years. During the first 5 years of the experiment, about 11,000 dwellings were repaired or improved to meet program standards entirely in response to tenant-based assistance (Lowry 1983, p. 24). This represented more than a 9 percent increase in the supply of apartments meeting minimum housing standards.

Given the available evidence on program performance, we should certainly not expand the tax credit program. The existing evidence argues for terminating it or phasing it out. If we want to serve additional households, we should expand the much more cost-effective housing voucher program. lf the tax credit program is retained, Congress should insist on independent analyses of the highest quality that compare the cost-effectiveness of housing vouchers with the various types of low-income housing tax credit projects.

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On behalf of Winkler Development Corporation, a developer of affordable housing in Oregon, we ask that you prioritize the Low-Income Housing Tax Credit (LIHTC) and tax-exempt multifamily Housing Bonds as Congress considers comprehensive tax reform and investments in our nation's infrastructure.

Our firm has developed numerous award-winning affordable housing projects that measurably improve the lives of our community members, and we aim to continue building affordable housing that serves both families and seniors. However, from our vantage points as developers, LIHTC and similar programs have become increasingly difficult to implement as construction and other costs have increased while the value of the tax credits have declined. Additional policy measures are necessary to produce enough affordable housing supported by LIHTC.

Every state in our country faces an affordable rental housing crisis. In Oregon, more than 10 percent of households (164,000) spend more than half of their monthly income on rent, leaving too little for other necessities like food, medical care, and transportation.

The Housing Credit has financed nearly 3 million apartments nationwide since 1986, which have provided roughly 6.7 million low-income families, seniors, veterans, and people with disabilities homes they can afford. It has provided affordable housing to all 50 states and all types of communities, including urban, suburban, and rural. More than one million of these apartments were financed using tax-exempt multifamily Housing Bonds.

As the 115th Congress and the new Administration consider tax reform and infrastructure investments, we call on Congress to: (1) ensure that the Housing Credit and Housing Bonds are held up as positive examples of the power of the tax code to improve communities by maintaining their viability under tax reform; and (2) expand and strengthen the Housing Credit to increase the availability of safe and affordable housing and revitalize local economies.

The Housing Credit enjoys bipartisan support nationwide because of its proven ability to effectively and efficiently build affordable rental homes for low-income households. For 30 years, it has been a model public-private partnership program, bringing to bear private sector resources, market forces, and state-level administration in order to give low-income families, seniors, veterans, and people with disabilities access to homes they can afford.

The Housing Credit has been so successful that Oregon Housing and Community Service, as well as housing agencies in other states, must turn down viable and sorely needed Housing Credit developments each year because the cap on Housing Credit authority is far too low to support the demand.

For the families paying more than half of their income towards housing—choosing between paying the rent or their medical bills, making repairs to their cars, or enrolling in job training classes—your support of the Housing Credit and Housing Bonds is critical.

Sincerely,

Julia Winkler
Winkler Development Corporation, Principal

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