



## **Statement of the A Call To Invest in Our Neighborhoods (ACTION) Campaign**

### **In Response to the Senate Finance Committee Hearing on “Business Tax Reform”**

**September 19, 2017**

The A Call To Invest in Our Neighborhoods (ACTION) Campaign is a national coalition representing over 2,000 national, state, and local organizations and businesses advocating to preserve, strengthen and expand the Low-Income Housing Tax Credit (Housing Credit). We thank Chairman Orrin Hatch and the Committee for holding this critically important hearing, and we appreciate the opportunity to provide feedback on business tax reform.

We are especially grateful for Finance Committee Chairman Hatch’s and Committee member Senator Maria Cantwell’s leadership 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 this critical bill, the Affordable Housing Credit Improvement Act of 2017 (S. 548) this year, and protect both the 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 is a Critical Part of Our Corporate Tax System**

The use of the tax code to provide affordable rental housing through the Housing Credit and multifamily Housing Bonds has been one of the most important successes of the current business tax system. 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 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 differs from many other corporate tax expenditures, which subsidize activity that still may occur without a tax benefit. In contrast, virtually no affordable rental housing development would occur without the Housing Credit. 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.

Jeffrey D. DeBoer, President and CEO at the Real Estate Roundtable, who testified before the Committee as part of this hearing, recognized the Housing Credit’s special standing within the corporate tax system. DeBoer’s written testimony notes that the Housing Credit is an example of a tax incentive that is “needed to address market failures and encourage capital to flow to socially desirable projects.”



Also, unlike most other corporate tax expenditures, substantially all of the net benefits of the Housing Credit go to low-income families, not corporations. This is because the Housing Credit is a purchased tax benefit, and corporations must pay in advance for the credit they receive. While corporations are the intermediaries who claim the credits in order to deliver private resources to affordable rental housing to low-income populations, it is the low-income families who live in these homes that the credit ultimately serves.

### **The Housing Credit is a Proven Solution to Meet a Vast and Growing Need**

Despite the Housing Credit's tremendous impact, there are still 11.1 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.

The Housing Credit transforms lives by providing quality, affordable homes to people in need. It plays a critical role in financing housing for families, seniors, persons with disabilities, veterans, and more. The Housing Credit is also central to the revitalization of Public Housing through HUD's Rental Assistance Demonstration (RAD). Since RAD was established in 2012, the Housing Credit has leveraged nearly \$1.7 billion to help recapitalize almost 28,000 homes.

### **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 3.4 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 ten 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 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 ten-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 five 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.

We also encourage Congress to make adjustments to the Housing Credit necessary to offset the impact that a lower corporate tax rate would have on Housing Credit investment. Senator Cantwell raised this important point during the hearing, when she noted that just the prospect of a lower corporate tax rate over the last year has resulted in lower pricing of Housing Credits by investors. This has impacted production at a time when our nation's shortage of affordable housing is vast and growing. However, Congress could negate the negative impact on the Housing Credit created by a lower corporate tax rate by making adjustments to the Housing Credit program's discount rate. Members of ACTION stand ready to help the Committee make these modifications to the program, which are outside the scope of S.548, and ensure that affordable housing production continues at a robust level regardless of other changes made in 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. 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**

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For a full list of ACTION Campaign members, visit [www.rentalhousingaction.org](http://www.rentalhousingaction.org).