

**SENATOR COBURN’S PROPOSAL TO END THE LOW-INCOME HOUSING TAX
CREDIT WOULD DEPRIVE THOUSANDS OF LOW-INCOME FAMILIES FROM
FINDING DECENT AND AFFORDABLE HOUSING AND WOULD KILL
THOUSANDS OF SMALL BUSINESS JOBS**

On July 18, 2011, Senator Tom Coburn of Oklahoma released a deficit reduction proposal entitled “Back in Black”. In it, he called for the elimination of the low-income housing tax credit (LIHTC) program. The document’s discussion of the reasons to eliminate the program is based on faulty reasoning; largely relying on criticisms from a Missouri state audit of a state based affordable housing program that Senator Coburn mistakenly believes is the federal LIHTC program. In addition, the Senator relies on a nearly 20 year old study of the program that with the passage of time is no longer relevant.

- The LIHTC program has been since it was signed into law by President Reagan as part of the Tax Reform Act of 1986, the “**most successful federal affordable housing production and preservation program in the nation’s history**”, in the opinion of the highly respected Joint Center on Housing Studies of Harvard University (Harvard Joint Center) in a recent report¹.
- Not only has the LIHTC program been highly successful in fulfilling its goal of providing high quality affordable rental housing to millions of Americans, it is a proven job producer. According to a 2010 study by the National Association of Home Builders, the one-year local impact of building a typical 100-unit LIHTC financed housing development results in **122 jobs** related to the construction of property. Moreover, that development produces \$7.9 million in local income and \$827,000 in tax revenue for local governments and it produces an additional **30 jobs** on an ongoing basis². Senator Coburn’s proposal, when applied nationwide, **would kill about 152,000 jobs annually**³. With unemployment continuing to be unacceptably high, ending a successful job producing program that addresses critical housing needs makes absolutely no sense.
- In support of his proposal, Senator Coburn cites a couple of studies, one of which has nothing to do with the federal low-income housing tax credit, but is instead a study of the Missouri state housing tax credit, a separate state credit program. The study, *Analysis of Low Income Housing Tax Credit Program*, by the Missouri State Auditor, makes clear on the first page that the audit is of the effectiveness of

¹ The Disruption of the Low-Income Housing Tax Program: Causes, Consequences, Responses and Proposed Correctives, Joint Center on Housing Studies of Harvard University, December 2009, page 13 [Emphasis Added]

² The Local Economic Impact of Typical Housing Tax Credit Developments, National Association of Home Builders (NAHB), March 2010, page 2

³ The National Council of State Housing Agencies estimates that the LIHTC program has produced 2.4 million apartments for low-income families since the program inception in 1987—an average of almost 100,000 units per year. Applying the NAHB data to this figure yields this result.

the “state’s Low Income Housing Tax Credit program”⁴. Although we are not in a position to analyze the findings of the Missouri State Auditor on the Missouri credit, it is unfair and inaccurate to disparage the federal LIHTC program by reference to a wholly different state program. Indeed, the Missouri Auditor’s report notes these differences and favorably compares the federal LIHTC to the Missouri credit.

- Senator Coburn argues that the LIHTC program is inefficient and duplicative of other federal housing programs operated by the Department of Housing and Urban Development. With respect to efficiency, the Senator states that much of the funds are lost to administrative costs and payouts to private companies, citing as evidence the Missouri credit study, which as pointed out above, is not applicable to the federal LIHTC. Besides citing a clearly inapplicable study, the Senator’s proposition is simply wrong on the facts. **The LIHTC program is highly efficient—prices paid currently for low-income housing credits are now generally in excess of 85 cents per dollar of tax credit and in many locations, well in excess of 90 cents.** There is very little administrative overhead being paid. That contrasts with the 35 cents on the dollar that the Missouri State Auditor found with respect to the Missouri state credit. LIHTC investors pay for the credits upfront even though they must wait for ten years to receive the full amount of credits. Moreover, while the tax credits do flow to private investors, it is their equity capital that is contributed to project owners in exchange for LIHTC that allows the properties to reduce their mortgage debt and thereby operating costs. This permits owners to lower rents and make these homes affordable to low-income families and seniors. **The benefit of the LIHTC flows directly to residents in the form of these affordable rents.**
- Every government program has some administrative costs. In this case, not only are the administrative costs small, but it is the private sector, together with state housing finance agencies administering the program, that result in several benefits: 1) the federal government has very minor administrative costs, 2) state agencies are better able to assess their own unique housing needs than a centralized bureaucracy in Washington, DC and 3) the private sector brings great discipline and expertise to the construction, operation and asset management of these properties. The result has been **a remarkably successful program** where the failure rate, measured by the number of foreclosures against these properties, is miniscule--less than 0.1%⁵ (well below other classes of real estate) and instances of serious non-compliance with the program’s rules are very rare. Moreover, the risks are borne entirely by private sector participants—if the housing is not produced, if rents are not restricted properly, if assisted units are leased to over-income tenants, or if the housing does not meet federal and state

⁴ Analysis of Low Income Housing Tax Credit Program—by Susan Montee, Missouri State Auditor, April 2008, “Yellow Sheet, first page [Emphasis Added]

⁵Understanding the Dynamics V: Housing Tax Credit Investment Performance, Ernst & Young LLP, 2010, page 3

requirements, it is the investors who pay a penalty by recapture of tax credits, not American taxpayers.

- As to the Senator’s allegation that the LIHTC program is duplicative of other federal programs, quite the opposite is true. As noted by the Harvard Joint Center in another report, “LIHTC can be successfully used as one component of a layered subsidy approach which allows LIHTC housing to be offered to extremely low-income households”.⁶ **A very substantial majority of affordable rental housing production and preservation is accomplished with the use of LIHTC; it is *the* indispensable tool that allows other subsidies to work and makes it possible for very low-income families afford a home in these properties.**
- The Senator’s statement that the LIHTC is “also driving up the costs of other federal programs” is simply without merit and the Senator cites no credible evidence to support this contention.
- The Senator’s next argument is that the program does not necessarily meet the needs of the very poor. The Senator states that “recipients of the credit are required to ensure their rents can be paid by those earning 50 to 60 percent of local median incomes” [emphasis added]. Actually, the federal rules do the opposite, requiring that the unit be affordable to families earning no more than 50 to 60 percent of local median incomes. Furthermore, while it is true that the LIHTC by itself is not designed to reach very low-income families, but it is often combined with other federal, state and local programs to reach those families. Federal law requires that in choosing among applicants, state housing credit agencies give preference to projects serving the lowest income residents for the longest period of time. **Indeed, the Government Accountability Office (GAO) estimated that the average income of residents in LIHTC financed housing properties was 37 percent of the median income for the area in which such projects were located, well below the maximum allowable limits of 60 percent of area median income**⁷.
- The Senator states that it is not clear whether LIHTC actually increases the supply of available affordable housing or merely replaces existing structures which are aging. In support of this point, the Senator quotes a nearly 20 year old Congressional Budget Office study that looked at the program in its infancy. The Harvard Joint Center looked at a similar argument and found that “empirical support for this contention is weak”⁸. **What is very clear is that the need for affordable rental housing is critical and growing.** The Harvard Joint Center found in a report released earlier this year that “...the share of US households

⁶ Long Term Low Income Housing Tax Credit Policy Questions, Harvard Joint Center, November 2010, page 6

⁷ Opportunities to Improve Oversight of the Low Income Housing Program, GAO, March 1997, page 41

⁸ Long Term Low Income Housing Tax Credit Policy Questions, Harvard Joint Center, November 2010, page 7

unable to find affordable rentals has been on the rise for a half-century, with an especially large jump in the last decade as renter income fell even further behind housing and utility cost increases... Rental markets are now tightening, with vacancy rates falling and rents climbing.”⁹ Moreover, the percentage of moderately and severely cost burdened renters (those paying more than 30% and 50% of income for housing, respectively) has climbed to an astonishing 75% in total¹⁰.

- Finally, the Senator’s contention that the elimination of the program would save approximately \$57 billion over the next ten years is vastly over-estimated and appears to assume that the program would be repealed retroactively. Even if the Congress were to repeal the program, it is inconceivable that it would be done retroactively. A retroactive repeal would affect existing investments and private participants who have invested billions of dollars in good faith and in response to a congressionally authorized program would be deprived of the tax credits they bargained for. The federal government would jeopardize private participation in any future public-private partnership and would undermine private sector confidence in the government if it were to take such a retroactive action. We believe prospective elimination of the program would raise less than half the amount projected by Senator Coburn and would only have a negligible effect on lowering corporate tax rates.

In conclusion, the Senator’s call for repeal of the low-income housing tax credit would eliminate the most important and successful program for critically needed affordable rental housing, thus depriving millions of low-income families and seniors of a decent place to live and killing thousands of well paying jobs at a time of severe unemployment. We ask that you oppose this proposal.

Respectfully submitted,

THE AFFORDABLE HOUSING TAX CREDIT COALITION

The Affordable Housing Tax Credit Coalition is a national trade association comprised of many of the major participants involved in the low-income housing tax credit program. Originally formed in 1989, the Coalition is comprised of syndicators, investors, for-profit and non-profit developers, public agencies allied professionals who are dedicated to the success of this program. We have worked with Congresses and Administrations for over 20 years to provide information and counsel regarding the program.

⁹ America’s Rental Housing: Meeting Challenges, Building on Opportunities, Harvard Joint Center, 2011 page 1

¹⁰ *Id.* at page 4