

Statement of Orlando J. Cabrera, Assistant Secretary, Office of Public and Indian Housing, U.S. Department of Housing and Urban Development

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#### STATEMENT OF ORLANDO J. CABRERA

Chairman Neal, Ranking Member English, distinguished members of the Subcommittee, my name is Orlando Cabrera and I am the Assistant Secretary for Public and Indian Housing at HUD.

The Low-income Housing Tax Credit (LIHTC) Program represents a major resource to affordable housing developers. Between 1987 and 2004, the most recent date that data is available, nearly 25,500 tax credit projects were developed and placed in service, representing more than one million affordable housing units. These credits are an important development resource for low-income housing programs in the Department, particularly public housing and supportive housing for the elderly (Section 202).

#### LIHTC and Public Housing

Public housing authorities (PHA) are eligible to apply for LIHTCs, and the program requirements for this funding source are consistent with the mission of these agencies. PHAs can use LIHTCs to both increase the supply of affordable housing in their community and to revitalize existing developments that are obsolescent or distressed.

To date, PHA participation in the LIHTC program has been limited, but diverse. As of 2005, approximately 230 PHAs across 44 states, the District of Columbia and Puerto Rico, had developed or were developing 775 tax credit projects for the construction of 97,930 units. This represents approximately 9% of all tax credit units developed, 3% of all tax credit projects, and 7% of all PHAs in the United States.

Projects involve both 9% tax credits and 4% tax credits with bonds, and include new construction as well as the redevelopment of existing properties. Two-thirds (66%) of the units developed by PHAs are new construction, versus 54% for the universe of LIHTC projects. The balance of remaining projects is for rehabilitation of existing developments, with less than 2% including a combination of new construction and rehabilitation. These projects vary in size, with the smallest project comprising only five units and the largest 475 units.

The greatest concentration of PHA sponsored projects is in the Northwest (52%), followed by the Northeast (21%). Small agencies managing fewer than 1,000 units of public housing represent half of all LIHTC projects undertaken by PHAs.

Across these projects, LIHTCs are an especially important form of leverage for HOPE VI developments. Since the inception of the HOPE VI program, 121 PHAs have received 237 HOPE VI revitalization grants. The program provides funding to PHAs for the revitalization of distressed public housing through new construction or rehabilitation of existing units. One goal is to create mixed-income communities that include a range of federally subsidized housing types, market rate units and homeownership units. HOPE VI proposals are rated on their leveraging, with LIHTCs providing one of the major sources.

By 2005, 649 rental phases of development were planned across HOPE VI developments. Most (76%) of these phases included LIHTCs. HOPE VI developments account for 64% of all LIHTC projects managed by PHAs. It should be clear from these statistics that LIHTCs are a nearly indispensable resource for the HOPE VI program. In fact, the phase closing schedules for most HOPE VI projects are built around the allocation timetables for LIHTCs.

Some developers express concern that HOPE VI projects represent too high a percentage of all LIHTC projects. HOPE VI developments, however, only account for approximately 2 percent of all LIHTC projects.

HUD will continue outreach and training to encourage PHA participation in the LIHTC program. LIHTC equity provides a logical and important source of leverage for HUD programs, including HOPE VI and Capital Funds, and the significance of LIHTCs as a leverage funding source among PHAs will likely increase.

In addition to outreach, HUD also provides training and resource materials to assist PHAs in the use of LIHTCs and implementation of mixed-finance projects. These are important resources for PHAs, as some agencies require additional training and information in order to apply for and use LIHTCs as part of their development projects. Mirroring these needs, public housing industry groups such as the Local Initiatives Support Corporation, Enterprise Community Investment, Inc., the Neighborhood Reinvestment Corporation, and the National Association of Housing and Redevelopment Officials, also provide assistance to PHAs in the use of LIHTCs.

As part of these ongoing efforts to increase utilization of LIHTCs by PHAs, collaboration between HUD and IRS on LIHTCs and public housing is important. One idea is the development of an Inter-Agency Agreement (IAA) between HUD and other agencies to collaborate on information sharing and joint outreach efforts related to LIHTCs and public housing. Several examples include:

- Coordination across HUD, PHAs and housing finance agencies (HFA) to target states where LIHTCs are underutilized and volume cap is available.

- Assistance to HFAs interested in the development of Qualified Allocation Plan and Rules (QAP) preferences that increase tax credit unit production for very low-income families at or below 30% of AMI.
- Collaboration across HUD and HFAs to increase outreach to PHAs and provide training in LIHTC financing.

For the Department's Native American programs, the picture is improving. The use of low-income housing tax credits in Indian Country lags behind that of their public housing counterparts. Many tribes want access to this valuable resource, but under current law and regulations, Indian Housing Block Grant funds used for tenant- or project-based rental assistance in conjunction with low-income housing tax credits are not exempt from the reduction in eligible basis that is available under Section 8 and similar programs.

The Department has been working closely with the IRS to develop the regulatory framework for such a change, but an amendment to the statute authorizing NAHASDA would create a more permanent and clearer resolution of this issue.

#### LIHTC and Supportive Housing for the Elderly (Section 202)

Beyond the public housing program, LIHTCs are also a very important funding source for the Section 202 program. The importance of LIHTCs to this program has increased in line with demographic shifts and programmatic costs. Growth in the elderly population has logically resulted in an increased need for supportive housing that targets the elderly. At the same time, the cost of constructing new units continues to rise making it more difficult for the Department to meet this need. Moreover, the need to renew the rental assistance contracts on existing projects is also increasing, which erodes the funding available to produce new units.

Given these challenges and the availability of LIHTCs, the Department's FY 2008 budget proposes an innovative demonstration program aimed at increasing production of Section 202 units. The demonstration project will seek to utilize LIHTCs and other housing resources (tax-exempt bond financing, HOME Program, private grants, etc.) to expand production under the Section 202 program.

Many view the conjoining of LIHTCs with the Section 202 program to be a step in the right direction for LIHTC projects that target the elderly. For example, according to a 2006 American Association of Retired Persons (AARP) study titled *Developing Appropriate Rental Housing for Low-Income Older Persons: A Survey of Section 202 and LIHTC Property Managers*, "Section 202 properties for older persons have somewhat more success than LIHTC properties for older persons in providing services." It is the goal of the Department to take positive aspects from both programs, drawing on development financing on the LIHTC side and service delivery on the Section 202 side, to produce additional units with strong senior services components.

As part of the demonstration, the Department is conducting a study and meeting with industry experts, stakeholders and housing advocates to identify implementation challenges and other issues related to expansion of the Section 202 program. Some of the areas being explored include:

- Identifying ways to complete projects in a timelier manner, utilizing various funding sources to expand the impact of the limited 202 dollars, and providing enhanced supportive services.
- Identifying and removing barriers (such as legislative exemptions) in the Section 202 Prepayment and Refinancing Program to facilitate the preservation and rehabilitation of existing properties;
- Identifying ways in which HUD can partner with other federal, state, and local agencies to leverage Section 202 funds.

A draft of the study has been completed and is currently under review. A Notice of Funding Availability (NOFA) for the demonstration program is proposed for the 2008 funding cycle.

The Department has also proposed in its FY 2008 budget a similar demonstration program for Section 811, supportive housing for people with disabilities, that seeks to increase production by addressing certain barriers that would encourage the leveraging of difference sources of funding.

Mr. Chairman, and members of the subcommittee, the Department considers LIHTCs to be a significant resource in the affordable housing industry. When coupled with existing HUD programs such as HOPE VI, the Capital Fund, rental subsidies, and Sections 202 and 811, LIHTCs represent a crucial source of leveraged financing in the construction or rehabilitation of affordable housing families at various levels of income. The Department will continue to promote the use of tax credits among PHAs, Section 202 program providers, and other HUD programs.

#### Conclusion

As you have seen from our testimonies today, even though the LIHTC is not a HUD program, the Department does have some important administrative roles in it. We look forward to working with the Congress and our colleagues at the Department of the Treasury to address any difficulties in the program that may require solutions, legislative or otherwise, and I want the subcommittee to be aware of what areas HUD is examining.

Thank you and I look forward to your questions.