

THE BUZZ**Another Perfect Storm Hits Gulf Coast, Midwest**

By Buzz Roberts, Local Initiatives Support Corporation

Another perfect storm has hit the Gulf Coast and the Midwest, threatening the construction of 3,700 low-income rental homes and 5,000 jobs in Louisiana alone, with additional losses in Mississippi, Alabama, Texas, and even parts of the Midwest affected by floods. This time the storm is not hurricanes Katrina, Rita, Ike, or river floods. It is the Treasury Department's rejection of Louisiana's request to exchange for cash grants the low-income housing tax credits (LIHTCs) specially authorized to rebuild disaster areas the recently enacted American Recovery and Reinvestment Act (ARRA) generally provided for LIHTCs.

In 2005, Congress approved special allocations of LIHTCs to help rebuild portions of the Gulf Coast devastated by hurricanes Katrina and Rita. It subsequently authorized additional LIHTCs in the wake of Hurricane Ike and Mississippi River floods in the Midwest. This authority reflected congressional confidence in the LIHTC as a federal policy tool for disaster recovery.

Rebuilding the Gulf Coast has proved to be a tremendous challenge. Some housing has been built, but many projects have been stalled for many reasons.

First, the storm's damage was unprecedented in its scale, most famously in New Orleans, but also all along the coast in four states. Literally miles and miles of housing, businesses, schools, hospitals, roads and other infrastructure were left in heaps of rubble or just plain gone. And the physical damage was only part of the story. The social disruption was tragic and traumatic. Government at all levels

was overwhelmed. The economy was crippled. No one has suffered more than low-income families and communities.

Local rebuilding plans also took a long time to sort out. Would neighborhoods be rebuilt or left fallow? Could rebuilt levees withstand a future storm? How high off the ground would housing have to be built, and at what additional cost? Should public and other assisted housing be rebuilt, and if so the same as before or perhaps with a mix of incomes, at less density, and with better integration with other neighborhood amenities? Would displaced tenants return, and who would pay for relocation? Should developers wait for other signs of neighborhood revitalization or move ahead and risk building a property in an area with wide swaths of vacant land and no schools, stores, or, for much too long, even electricity?

What about property insurance? In some places it was simply unavailable. In others the cost was prohibitive or high enough to impose major operating budget challenges. And how sure could sponsors or investors be that insurance companies would not raise rates or pull out of the market entirely at some point in the future?

Construction costs, building materials, and labor were another challenge in the aftermath of disaster. Good contractors, workers and supplies were hard to find, especially at reasonable prices.

What about market demand? While hundreds of thousands of rental housing units had been lost, many people had left the region. Would they return? Would there be

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jobs for them? What could they afford to pay as rent? And where would they live?

Then there was NIMBY – the Not In My Back Yard syndrome. Many communities, especially beyond the areas most prone to future flooding, strongly opposed the development of rental housing, especially for low-income people. Sometimes the resistance got ugly, as veiled or explicit racial discrimination and xenophobia appeared. Localities passed exclusionary zoning ordinances or refused to approve building permits. Lawsuits ensued and lingered.

Housing sponsors eventually overcame these obstacles, but attracting investment presented a major problem, even before the national financial meltdown reduced LIHTC investments. The GO Zone legislation increased several fold over historic levels the need for investment in the area. Under the Community Reinvestment Act, banks are obligated to serve only the areas where they take deposits, and most Gulf Coast banks had little or no LIHTC investment experience or appetite. Only a couple of banks with major LIHTC capacity had CRA responsibilities to the Gulf Coast, and in some places none did.

Federal banking regulators recognized the problem and issued special policies allowing CRA recognition to banks outside the area for LIHTC and other community development investments in the GO Zone. But most outside banks were unresponsive: some did not need the CRA recognition; others doubted that a CRA examiner a year or two later would actually award much if any recognition.

The skepticism was based on hard experience, since CRA examiners had in many cases denied recognition for investments outside a bank's immediate assessment area despite apparently accommodating policy guidance. One money center bank was ready to invest in the rebuilding of public housing in New Orleans but decided to check with its CRA examiner first. The examiner said the bank would not get credit because it had not made enough investments in two of the bank's many existing target areas. At least one of these target areas had a surplus of LIHTC investment capital, not a shortage. As a result, this money center bank decided not to invest in redeveloping New Orleans public housing.

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In the recently enacted ARRA, Congress allowed states to exchange unused LIHTC authority for cash grants to jump-start stalled projects unable to attract investors. But in a rush to pass large and complex national recovery legislation three and one-half years after hurricanes Katrina and Rita, Congress was apparently not thinking about the Gulf Coast. The ARRA exchange provision did not say explicitly whether or not it should apply to the special GO Zone LIHTCs.

GO Zone advocates and legal experts argue that there is plenty of technical justification to support allowing the exchange of GO Zone LIHTCs, to say nothing of the compelling policy reasons. Nevertheless, the Treasury Department decided otherwise. That decision leaves 3,700 low-income families and 5,000 jobless workers just in Louisiana, and many others elsewhere, high and dry, and this time that means more bad news. America should do better than that. ❖



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