

THE LOW-INCOME HOUSING TAX CREDIT

AT WORK IN RURAL COMMUNITIES



Encanto Pointe, Phoenix, Arizona.

The Low-Income Housing Tax Credit (Housing Credit) stimulates investment in affordable housing in underserved urban and rural communities and in higher cost suburban communities across the nation. It provides low-income families with a safe and decent place to live and, by lessening their rent burdens, frees up additional income that can be spent on other necessities or put into savings for education or homeownership. The Housing Credit is also a vital community and economic development tool, creating jobs and catalyzing redevelopment in struggling communities.

What is the Low-Income Housing Tax Credit?

- The Housing Credit is the single most important federal resource available to support the development and rehabilitation of affordable housing – currently financing about 90 percent of all new affordable housing development.
- How the credit works:
 - Federal tax credits are allocated to state housing finance agencies by a formula based on population.
 - Each state agency establishes its affordable housing priorities and developers compete for an award of tax credits based on how well their projects satisfy the state's housing needs.
 - Developers receiving an award use the tax credits to raise equity capital from investors in their developments.
- The tax credits are claimed over a 10-year period but the property must be maintained as affordable housing for a minimum of 30 years.
- Because tax credits can be recaptured for any noncompliance, investors maintain close supervision over the properties to ensure their long-term viability and compliance with IRS and state allocating agency requirements.
- Units funded by the Housing Credit must be affordable for people earning no more than 60 percent of the Area Median Income (AMI), although most residents have far lower incomes.
- Rent may not exceed 30 percent of the qualifying income.

What are the outcomes?

- Since its inception, the Housing Credit has spurred the development of approximately **three million quality homes** for working families, seniors, disabled veterans, and people at risk of homelessness.
- Each year, the Housing Credit finances about **100,000 units** of affordable housing and creates approximately **96,000 jobs** in the construction and property management industries.
- Housing Credit properties outperform market-rate housing properties, with occupancy rates topping 96 percent and a cumulative **foreclosure rate of 0.66 percent** over the program's entire history.
- The units tend to be occupied by very low-income families, with 48 percent of the units occupied by families making less than 30 percent of AMI; and 82 percent of the units occupied by families making less than 50 percent of AMI.

What is the impact on rural communities?

- There is a particularly intense need for affordable housing in rural communities since low-income rural residents face increased hardships, including higher transportation costs and less access to quality jobs.
- According to 2010 American Housing Survey data, 30 percent of all rural households spend more than 30 percent of their income of housing. In Housing Credit-financed communities, these families could only be charged a maximum of 30 percent of their qualifying income in rent.
- As of 2013, approximately 8,830 units or 22 percent of all existing LIHTC-financed projects were in rural (nonmetropolitan) census tracts.
- The primary funding mechanism for new rental housing in rural communities is the LIHTC program, which often leverages USDA funding and requires gap financing through other federal or state programs. These resources are generally oversubscribed, underfunded, and difficult to win when competing against urban projects.
- Examples of Housing Credit properties in rural areas:
 - Without **Goshen Village II** in Tulare County, Calif., **56 farm workers and their families** might be living in substandard, overcrowded homes. With support from Rural LISC and National Equity Fund (NEF), Self-Help Enterprises constructed this energy-efficient development to enhance the neighborhood's quality of life. In addition to modern, affordable homes, this community offers space for after-school and computer programs for children, basketball courts, athletic fields and playgrounds, and also features tiled roofs with solar panels.
 - When a shoe company closed its Beaver Dam, Wis., factory in 2003, the community was forced to decide the fate of its four-story brick building, built in 1893. With LIHTC investments of **\$6 million** from Rural LISC and NEF, Impact Seven Inc. and Wisconsin Redevelopment succeeded in developing **Beaver Dam Lake Historic Lofts**, a new community for low-income residents. The apartments feature modern Energy Star appliances and individually controlled high-efficiency furnaces. Further, the building includes a community room, fitness room, media center, and hobby/craft room to bring residents together.
 - A vacant, historic schoolhouse in rural Vermont sat empty for years, and local officials were considering tearing it down. Housing Trust of Rutland County (HTRC), an experienced developer of historic buildings, stepped in with a plan, and the project was supported with \$3.5 million in LIHTC equity. The school was transformed into six one-bedroom apartments with another eight newly constructed apartments nearby. **Watkins School & Carriage House** residences are restricted to senior citizens with households earning 50–60 percent of the area median income.

What can Congress do?

- Enact the Affordable Housing Credit Improvement Act (S. 1703 and H.R. 3077). This legislation would:
- Increase Housing Credit allocations by 50 percent, phased in over five years, to help meet the growing need for affordable housing; Streamline requirements and provide states with additional flexibility;
 - Facilitate Housing Credit development in challenging markets like rural and Native American communities;
 - Increase the Housing Credit's ability to serve hard-to-reach communities including rural, Native American, high-poverty, and high-cost communities, as well as extremely low-income tenants;
 - Better support the preservation of existing affordable housing; and
 - Enhance the 4 percent Credit and multifamily housing bond portion of the program.

LISC is a national non-profit housing and community development intermediary with offices in 35 different cities and a national rural network of 89 organizations.

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