THE LOW INCOME HOUSING TAX CREDIT

AT WORK IN RURAL COMMUNITIES


Encanto Pointe; Phoenix, AZ

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 generally 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 household 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 78 percent of the residents making less than 50 percent the 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.
- 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:
    - With support from the National Equity Fund (NEF), RUPCO developed **Energy Square**, a single 5-story mixed-use LEED Platinum certified development providing 57 housing units. Energy Square sits on 1.3 acres providing 70,000 square feet with 11,000 square feet dedicated to the Center for Creative Education. As the first affordable Zone Energy Building (ZNE) development in upstate New York, residents' electricity needs are met through a 300 KW solar array with a projected annual production of 352,000 kWh, and the building's cooling needs are met through a geothermal system.
    - Based in Tieton, Washington, **St. Catherine De Vigri Villas** consists of 53 units of affordable housing within a development and community building for residents on a five-acre parcel. With more than **$11 million** in LIHTC equity investments from NEF, the Catholic Charities Housing Services – Diocese of Yakima succeeded in developing the project, which includes 17 two-bedroom units, 31 three-bedroom units and five four-bedroom units serving farmworker households earning 30 percent, 40 percent and 50 percent Area Median Income (AMI). The community building includes resident meeting spaces/classroom management offices, on-site laundry, a computer lab and a playground outdoors. As one of the oldest farming communities in the region, the developer, CCHS hopes to help inspire the community in recognizing and supporting the workers who are the backbone of America – our nation's farmworkers.

What can Congress do?

Enact the Affordable Housing Credit Improvement Act (S. 1557 and H.R. 3238), sponsored by Senators Maria Cantwell (D-WA), Todd Young (R-IN), Ron Wyden (D-OR), and Marsha Blackburn (R-TN); and Representatives Darin LaHood (R-IL), Suzan DelBene (D-WA), Brad Wenstrup (R-OH), Don Beyer (D-VA), and Claudia Tenney (R-NY). This legislation would:

- Increase Housing Credit allocations by 50 percent to help meet the growing need for affordable housing;
- Streamline requirements and provide states with additional flexibility;
- Enhance the 4 percent Credit and multifamily housing bond portion of the program.;
- 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; and
- Better support the preservation of existing affordable housing.

LISC is a national nonprofit housing and community development intermediary with offices in 38 different cities and a national rural network of 146 organizations.

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