LISC
Helping neighbors
build communities

June 17, 2019

Comments to the Senate Finance Committee's
Task Force on Employment and Community Development

The Local Initiatives Support Corporation (LISC) is pleased to respond to the solicitation of comments by the Task Force on Employment and Community Development relating to expiring tax provisions.

LISC is a non-profit housing and community development organization and certified Community Development Financial Institution (CDFI) with offices in 35 cities throughout the country and a rural network encompassing 90 partner organizations serving 44 different states. LISC's work supports a wide range of activities, including affordable housing, economic development, building family wealth and incomes, education, community safety, and community health.

As one of the largest national nonprofit housing and community development organizations in the country, LISC often relies upon public-private partnerships to engage in the type of comprehensive community development work that is needed in low-income communities. Two of the most critical federal tools that support our efforts are the Low Income Housing Tax Credit (the Housing Credit) and the New Markets Tax Credit (NMTC). Since these programs were established in 1986 and 2000, respectively, they have become an integral component of efforts to support affordable housing development and, as importantly, the revitalization of economically distressed neighborhoods. Federal investment in these programs by way of tax expenditures has paid strong dividends by sparking private sector investment in geographic areas that would otherwise be overlooked. In 2018 alone, LISC raised and deployed approximately $1.5 billion of capital into low-income urban and rural communities – including over $1 billion in private equity capital through the Housing Credit and New Markets Tax Credits.

Congress must act to preserve and strengthen these successful programs; to avoid doing so would have devastating and potentially irreversible effects on some of the nation's most underserved populations and communities.

New Markets Tax Credits

Background:

The NMTC provides an incentive in the form of a tax credit for investors to make equity investments in U.S. Treasury-certified Community Development Entities (CDEs), which in turn deploy the capital to support operating businesses, commercial real estate projects (including mixed-use, industrial, retail, manufacturing and office space), community facilities and for-sale housing in low-income communities throughout the country. The credit totals 39 percent of the investment amount and is claimed over a period of seven years. The Treasury Department awards these credits to CDEs annually through a national competition.

In data reported by the Treasury Department, through 2017, over $46 billion of New Markets equity has been invested in over 6,600 businesses and real estate projects in low-income communities throughout the country. Over seventy-five percent of these investments were made in communities characterized by severe economic distress, and twenty-one percent were made in non-metropolitan communities. These investments helped to develop or rehabilitate over 205 million square feet of real estate and support over 800,000 jobs. For every $1 invested by the Federal government, the NMTC Program generates over $8 of private investment.

LISC has placed $987 million of NMTC investments in 130 different businesses and real estate projects, supporting $2.7 billion in total project costs. These funds have helped to develop or rehabilitate 670 units of housing and 10.6 million square feet of commercial and community space, including health care facilities serving 400,000 patients and educational facilities serving 45,000 students. LISC's NMTC investments have supported the creation or retention of over 20,000 jobs.

<u>*Extender Recommendations for the NMTC:*</u>

LISC supports, and would refer this Task Force to, the comments submitted by the ***New Markets Tax Credit Coalition***. We emphasize the following:

1. **The NMTC must be made a permanent part of the tax code.** The NMTC will expire in 2019. As Congress considers making changes to the tax code, it needs to place a high priority on ensuring that this critical program is permanently authorized. With the certainty of permanent authorization, the competition for tax credits will become even stronger, as more CDEs invest the time and energy into participating in the program. This will lead to an even higher quality of business strategies and funded projects. Similarly, program permanency will also draw more investors to the program, which will result in higher pricing for the credit and, consequently, greater subsidy available for NMTC projects. This will enable more projects to be financed in distressed communities. Finally, with a permanent authorization, the Treasury Department could consider additional program improvements (such as larger, multi-year awards) that will add stability to an application process that currently cannot guarantee awards beyond a single year.

2. **NMTC allocation authority should be increased to at least $5 billion annually.** The program is dramatically over-subscribed at $3.5 billion. As a result, many highly qualified applicants do not receive awards, and many of those that receive awards receive amounts that are significantly lower than their requested amount. In the 2018 allocation round, the CDFI Fund received over $14.6 billion in requests, but was only able to make 73 awards totaling $3.5 billion, with an additional 100 applicants deemed highly qualified. Increasing the allocation pool will enable more organizations to receive awards and/or to increase the size of awards made – both of which provide paths to spreading the benefits of the awards to more areas in the country.

3. **Investors that are subject to the Alternative Minimum Tax (AMT) should be allowed to use NMTCs to offset tax liabilities.** Unlike other investment tax credits –including the Housing Credit and the Historic Tax Credit (HTC) – NMTC investments are not available to investors subject to the AMT. Providing an AMT exemption for NMTC investments would bring the NMTC in line with those other credits and open up the NMTC investor market to new investors, including high net worth individuals, community banks and corporate investors who are currently restrained by the AMT. Broadening the NMTC investor base would increase competition and efficiency, leading to better pricing, and driving even more subsidy to businesses operating in NMTC qualified communities.

All of these changes are included in The New Markets Tax Credit Extension Act (S.750), the bipartisan legislation that has been introduced by Senator Blunt and Senator Cardin, and currently has 18 other co-sponsors.

Housing Tax Credit

Background:

Supported on a broad bipartisan basis, the Housing Credit was enacted as part of the Tax Reform Act of 1986. The Housing Credits are allocated to the states through a formula allocation, and then awarded through competition to developers of qualified projects. Developers sell the property to investors to raise equity capital for construction of their projects, thus reducing the debt service and allowing the projects to provide affordable rents to low-income families. Investors claim the credits over a 10-year period, and are at risk of tax credit recapture for an additional five years if the property does not remain in compliance with the rules.

To date, the Housing Credit has financed the development of approximately 3.2 million affordable homes across the nation with projects in every state, leveraged more than $100 billion in private capital, and helped to create well over 3 million jobs in the construction and property management industries.[1] The units tend to be occupied by very low-income families: 83% of the families make below 50% of the area median income, including 48% that make below 30% of area median income.

LISC, through its subsidiary the National Equity Fund (NEF), is one of the nation's largest syndicators of Housing Credits. To date, NEF has invested $15.3 billion in close to 2,500 housing properties, creating approximately 177,000 affordable homes for low-income families in 46 states, and spurring the creation of an estimated 194,000 jobs. In recent years, LISC has been able to use the credit to support disaster recovery efforts, a veterans housing initiative, and an initiative to link housing to critical community health services.

[1] "Low Income Housing Tax Credit Impacts in the United States", Affordable Rental Housing ACTION Coalition

Extender Recommendations for the Housing Credit:

LISC supports, and refers this Task Force to, the comments submitted by the ***ACTION Affordable Rental Housing Network***. Recommendations include:

(i) extending and enhancing the temporary 12.5% increase in the housing credit allocation formula (currently set to expire in 2021) by making it permanent and increasing it by an additional 50%;

(ii) establishing a minimum floor for the formula determining the credit rate for the "4% credit"; and

(iii) enacting the remaining provisions of the Affordable Housing Credit Improvement Act (S. 1703) to further facilitate the investments in affordable housing.

Congress should enact S.1703 as soon as possible. We are currently facing an affordable housing crisis. Nearly 11 million renter households pay over 50% of their income in rent; only one in four eligible families receives rental subsidies. At a time of great need, S.1703 would support the production of hundreds of thousands of more affordable housing units over the next ten years above our current levels of production.

We thank you for considering these comments, and look forward to working with the Task Force and the Finance Committee going forward. Please contact Matt Josephs (mjosephs@lisc.org; 202-739-9264), LISC's Senior Vice President for Policy, if you have any questions or need additional information.