Statement of Enterprise Community Partners

In Response to Senate Finance Committee Chairman Orrin Hatch’s Request for Comments on Tax Reform

July 17, 2017

Enterprise Community Partners appreciates the opportunity to provide feedback on tax reform to the Senate Finance Committee. Enterprise is a national nonprofit organization whose mission is to create opportunity for low- and moderate-income people through affordable housing in diverse, thriving communities. Since 1982, Enterprise has raised and invested $28.9 billion to help finance nearly 470,000 affordable homes across the United States. Two of the primary tools that we use to develop well-designed homes in strong communities are the Low-Income Housing Tax Credit (Housing Credit) and the New Markets Tax Credit (NMTC), and we encourage the Senate Finance Committee to protect, strengthen and expand both of these incentives through tax reform.

Enterprise is grateful for Finance Committee Chairman Orrin Hatch’s and Committee Member Senator Maria Cantwell’s leadership in championing legislation to expand and strengthen the Housing Credit, our nation’s primary tool for encouraging private investment in affordable rental housing. We strongly urge the Committee to advance the Affordable Housing Credit Improvement Act of 2017 (S. 548) this year, and protect both the Housing Credit and multifamily Housing Bonds—a central component of the Housing Credit program—as part of any tax reform effort considered by Congress.

Enterprise also urges the Senate Finance Committee to advance the New Markets Tax Credit Extension Act of 2017 (S. 384), introduced by Senator Roy Blunt and Senate Finance Committee Member Ben Cardin, to promote economic development in our nation’s most distressed communities.

THE LOW-INCOME HOUSING TAX CREDIT

The Housing Credit has a Remarkable Track Record

President Reagan and the Congress showed remarkable foresight when they created the Housing Credit as part of the Tax Reform Act of 1986. The Housing Credit is now our most successful tool for encouraging private investment in the production and preservation of affordable rental housing, with a proven track record of creating jobs and stimulating local economies. For over 30 years, the Housing Credit has been a model public-private partnership program, bringing to bear private sector resources, market forces, and state-level administration to finance more than 3 million affordable apartments—nearly one-third of the entire U.S. inventory—giving more than 6.7 million households, including low-income families, seniors, veterans, and people with disabilities, access to homes they can afford. Roughly 40 percent of these homes were financed in conjunction with multifamily Housing Bonds, which are an essential component of the program’s success.

The Housing Credit is a Proven Solution to Meet a Vast and Growing Need

Despite the Housing Credit’s tremendous impact, there are still 11 million renter households—roughly one out of every four—who spend more than half of their income on rent, leaving too little for other necessary expenses like transportation, food, and medical bills. This crisis is continuing to grow. HUD reports that as of 2015, the number of households with “worst case housing needs” had increased by 38.7 percent over 2007 levels, when the recession began, and by 63.4 percent since 2001. A study by Harvard University’s Joint Center for Housing Studies and Enterprise Community Partners estimates
that the number of renter households who pay more than half of their income towards rent could grow to nearly 15 million by 2025.

Without the Housing Credit, there would be virtually no private investment in affordable housing. It simply costs too much to build rental housing to rent it at a level that low-income households can afford. In order to develop new apartments that are affordable to renters earning the full-time minimum wage, construction costs would have to be 72 percent lower than the current average.

The Housing Credit Creates Jobs
Housing Credit development supports jobs – roughly 1,130 for every 1,000 Housing Credit apartments developed, according to the National Association of Home Builders (NAHB). This amounts to roughly 96,000 jobs per year, and more than 3.25 million since the program was created in 1986. NAHB estimates that about half of the jobs created from new housing development are in construction. Additional job creation occurs across a diverse range of industries, including the manufacturing of lumber, concrete, lighting and heating equipment, and other products, as well as jobs in transportation, engineering, law, and real estate.

The Housing Credit Stimulates Local Economies and Improves Communities
The Housing Credit has a profound and positive impact on local economies. NAHB estimates the Housing Credit adds $9.1 billion in income to the economy and generates approximately $3.5 billion in federal, state, and local taxes each year.

Conversely, a lack of affordable housing negatively impacts economies. Research shows that high rent burdens have priced out many workers from the most productive cities, resulting in 13.5 percent foregone GDP growth, a loss of roughly $1.95 trillion, between 1964 and 2009.

Housing Credit development also positively impacts neighborhoods in need of renewal. About one-third of Housing Credit properties help revitalize distressed communities. Stanford University research shows Housing Credit investments improve property values and reduce poverty, crime, and racial and economic isolation, generating a variety of socio-economic opportunities for Housing Credit tenants and neighborhood residents.

Affordable Housing Improves Low-Income Households' Financial Stability
Affordable housing promotes financial stability and economic mobility. It leads to better health outcomes, improves children's school performance, and helps low-income individuals gain employment and keep their jobs. Affordable housing located near transportation and areas with employment opportunities provides low-income households with better access to work, which increases their financial stability and provides employers in those areas with needed labor.

Families living in affordable homes have more discretionary income than low-income families who are unable to access affordable housing. This allows them to allocate more money to other needs, such as health care and food, and gives them the ability to pay down debt, access childcare, and save for education, a home down payment, retirement, or unexpected needs.

The Housing Credit is a Model Public-Private Partnership
The Housing Credit is structured so that private sector investors provide upfront equity capital in exchange for a credit against their tax liability over ten years, which only vests once the property is constructed and occupied by eligible households paying restricted rents. This unique, market-based design transfers the risk from the taxpayer to the private sector investor. In the rare event that a property
falls out of compliance during the first 15 years after it is placed in service, the Internal Revenue Service can recapture tax credits from the investor. Therefore, it is in the interest of the private sector investors to ensure that properties adhere to all program rules, including affordability restrictions and high-quality standards.

**The Housing Credit is State Administered with Limited Federal Bureaucracy**
The Housing Credit requires only limited federal bureaucracy because Congress wisely delegated its administration and decision-making authority to state government as part of its design. State Housing Finance Agencies, which administer the Housing Credit in nearly every state, have statewide perspective; a deep understanding of the needs of their local markets; and sophisticated finance, underwriting, and compliance capacity.

**The Housing Credit is Critical to Preserving Our Nation’s Existing Housing Investments**
The Housing Credit is our primary tool to preserve and redevelop our nation’s current supply of affordable housing. Without the Housing Credit, our ability to revitalize and rehabilitate our nation’s public housing and Section 8 housing inventory, decades in the making, would be significantly diminished. In addition to putting the residents of these properties at risk of displacement, we would lose these investments that taxpayers have already made.

In rural areas, where direct funding for rural housing programs has been cut significantly, the Housing Credit is the backbone for preservation and capital improvements to the existing housing stock. Low-income rural residents’ incomes average just $12,960, and they are often living in areas with extremely limited housing options, making preservation of the existing housing stock crucial.

**The Demand for Housing Credits Exceeds the Supply**
Viable and sorely needed Housing Credit developments are turned down each year because the cap on Housing Credit authority is far too low to support the demand. In 2014 – the most recent year for which data is available – state Housing Credit allocating agencies received applications requesting more than twice their available Housing Credit authority. Many more potential applications for worthy developments are not submitted in light of the intense competition, constrained only by the lack of resources.

The scarcity of Housing Credit resources forces state allocating agencies to make difficult trade-offs between directing their extremely limited Housing Credit resources to preservation or new construction, to rural or urban areas, to neighborhood revitalization or developments in high opportunity areas, or to housing for the homeless, the elderly, or veterans. There simply is not enough Housing Credit authority to fund all of the properties needed, but with a substantial increase in resources, many more of these priorities would be addressed – and the benefits for communities would be even greater.

Though the need for Housing Credit-financed housing has long vastly exceeded its supply, Congress has not increased Housing Credit authority permanently in 16 years.

**We Urge Congress to Expand and Strengthen the Housing Credit**
To meaningfully grow our economy and address our nation’s growing affordable housing needs through tax reform, we urge Congress to increase the cap on Housing Credit authority by 50 percent. Such an expansion would support the preservation and construction of up to 400,000 additional affordable apartments over a ten-year period. We also call on Congress to retain the tax exemption on multifamily Housing Bonds, which are essential to Housing Credit production.
Senator Cantwell and Senate Finance Committee Chairman Hatch’s Affordable Housing Credit Improvement Act of 2017 (S. 548), which would authorize such an expansion, has earned strong bipartisan support in the Senate and among Senate Finance Committee members. This legislation would increase Housing Credit allocation authority by 50 percent phased in over five years, and enact roughly two dozen changes to strengthen the program by streamlining program rules, improving flexibility, and enabling the program to serve a wider array of local needs. The legislation would also generate a host of benefits for local communities, including increased local tax revenue, local income, and jobs, all benefits that meet the Committee’s goals for tax reform.

An investment in the Housing Credit is an investment in individuals, local communities, and the economy. It transforms the lives of millions of Americans, many of whom are able to afford their homes for the first time – and it transforms their communities and local economies. Enterprise applauds the leadership the Senate Finance Committee has shown in support of the Housing Credit to date and urges the Committee to expand and strengthen the Housing Credit and multifamily Housing Bonds.

THE NEW MARKETS TAX CREDIT

The NMTC has a Proven Track Record of Bipartisan Support
The NMTC was authorized in 2000 with bipartisan support and is a major generator of investment and job growth in low-income communities around the U.S., attracting capital to some of its most distressed communities. Through the end of 2016, the NMTC has financed over 5,400 businesses, creating 178 million square feet of manufacturing, office and retail space.

Since its inception in 2000, lawmakers from both sides of the aisle have recognized the importance of this critical community development tool. The NMTC has been reauthorized on a bipartisan basis since its initial temporary authorization, most recently in the 2015 PATH Act, which extended the NMTC through 2019. As Congress considers comprehensive reforms to our nation’s tax code, Enterprise urges the Committee to preserve and permanently extend the NMTC.

The NMTC Creates Jobs and Leverages Private Capital
Between 2003 and 2015, NMTC investments directly created over 750,000 jobs and leveraged over $80 billion in capital investment in credit-starved businesses in communities with high poverty and unemployment rates. According to the Treasury Department, every $1 in investment from the NMTC leverages approximately $8 of private capital. A recent analysis of Treasury Department data indicates that NMTC-financed businesses and jobs generate more income tax revenue than the NMTC actually costs. Additionally, the NMTC creates jobs at a cost to the federal government of less than $20,000 per job.

The NMTC operates in neighborhoods with low median incomes and high rates of unemployment. The market has traditionally overlooked these communities due to limited economic infrastructure and a constrained environment for investment. The NMTC provides businesses with access to flexible and affordable financing, as well as lower interest rates, lower origination fees, higher loan-to-value ratios, lower debt coverage ratios and additional terms and conditions that are more favorable than the market typically offers. With favorable credit terms, the NMTC creates an opportunity for private investment to take root in distressed communities, leading to unparalleled prospects for continued growth and development.

The NMTC Stimulates Local Economies and Improves Communities
By law, NMTC investments must be made in census tracts where the individual poverty rate is at least 20
percent or where median family income does not exceed 80 percent of the area median, but the majority of NMTC investments are made in communities exhibiting even more severe economic distress than required by law. The NMTC has supported a wide range of businesses in these communities — including food, housing, health, technology, energy, education, childcare and more — all of which increase local access to vital resources and promote healthier lives and more resilient communities. These investments create a host of positive impacts in the community; the initial injection of capital in a neighborhood can spur development that attracts additional investors, reinvigorating the local economic base and spurring revitalization.

In addition to revitalizing distressed urban communities, the NMTC has had a significant impact in rural communities nationwide. Through 2014, the NMTC has financed 817 businesses and community facilities in rural areas, has generated $11.6 billion in total project costs in rural areas and has generated nearly 50,000 full-time jobs and over 21,000 construction jobs in rural areas, according to the New Markets Tax Credit Coalition.

The NMTC is a Model Public-Private Partnership
The NMTC has been named one of the nation’s most innovative government programs by Harvard University. The Community Development Financial Institutions Fund (CDFI Fund) in the Department of Treasury competitively reviews applications and awards allocation authority to qualified Community Development Entities (CDE). The CDEs are required to offer financing with non-traditional or more flexible terms than conventional financing, and borrowers benefit from below market interest rates and underwriting terms. The vast majority of projects financed through CDEs would not qualify for enough conventional financing to cover the entire cost of the project, underscoring the important financing gap that the NMTC fills.

Investors, rather than taxpayers, bear the financial risks associated with NMTC projects. NMTC investors are incentivized to ensure compliance throughout all stages of the process or they risk tax credit recapture.

The NMTC is Extremely Oversubscribed
Many more CDEs apply for NMTC awards than are available each year. The CDFI Fund received requests for $319 billion in allocation authority between 2003 and 2016, vastly exceeding the $50.6 billion in available awards. With additional resources, CDEs would be able to invest in more projects and spur revitalization in distressed communities across the country.

The NMTC Should be a Permanent Part of the Tax Code
As a proven public-private partnership that leverages private investment to grow local economies, create jobs and transform neighborhoods, the NMTC should be a permanent part of the tax code. In addition to allowing the program to lift up more distressed communities, permanence would provide stability and certainty to this critical community development tool for low-income communities. NMTC equity pricing would subsequently increase, providing for greater program efficiency and increased leveraging of private capital.

Senators Roy Blunt and Ben Cardin introduced the New Markets Tax Credit Extension Act of 2017 (S. 384) to permanently extend the NMTC, index the allocation to inflation and provide Alternative Minimum Tax relief for NMTC investments. This bill has strong bipartisan support. Enterprise encourages the inclusion of this legislation in any tax reform effort.

We thank you for this opportunity to share comments on tax reform. If you have any questions
regarding these comments, please contact me at mmcfcadden@enterprisecommunity.org or Emily Cadik, Director of Public Policy, at ecadik@enterprisecommunity.org.

Sincerely,

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