

House Bill 2527 and Senate Bills 823 and 900 – Oregon Affordable Housing Tax Credit

Joint Committee on Tax Credits

The Honorable Ginny Burdick, Jules Bailey and Vicki Berger, Co-Chairs

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Overview of OAHTC

OAHTC is a state income tax credit that benefits the low-income residents of affordable housing:

- \$17 million in credit authority produces \$425 million in loans.
- In return, the lender is allowed a 4 percent credit on the outstanding principal balance of the permanent loan for 20 years, which is equivalent to the interest rate reduction.
- OAHTC requires lenders to reduce the interest rate on loans to affordable housing developers by 4 percent, for a 20-year term.
- Affordable housing developers agree to “pass through” the full amount of savings from the reduced interest rate loan in the form of rent reductions to households living in the property.
 - May pass through savings equally to all units or
 - Significantly reduce rents on fewer units to provide affordability to lowest of income.
 - Preservation of housing with federal subsidies and of manufactured dwelling parks are exempt from the pass-through requirement.
- If, in a given year, the lender has no Oregon tax liability, that year’s credit may be carried forward and claimed on Oregon taxes for up to five years.

What is the public purpose of this credit?

Is there an expected timeline for achieving this goal?

The Oregon Affordable Housing Tax Credit supports

- the development of housing affordable to household that have incomes below 80 percent of Area Median Income
- the preservation of housing with federal rent subsidy contracts in place
- the preservation of manufactured dwelling parks

Oregon will continue to have a need for affordable housing for the foreseeable future.

Affordable rental housing need

	State Population	Affordable Housing Inventory	% with Housing Available
Domestic Violence Victims	2,690	298	11.1%
Elderly	127,148	15,010	11.8%
Farmworkers	106,320	2,380	2.2%
Released Offenders	4,664	291	6.2%
HIV/AIDS	4,918	56	1.1%
Physically Disabled	8,749	1,262	14.4%
Frail Elderly	18,397	2,355	12.8%
Alcohol & Drug Rehab	68,713	752	1.1%
Developmentally Disabled	17,468	1,300	7.4%
Chronically Mentally Ill	63,305	1,641	2.6%

Affordable rental housing need

Extreme rent burden – from 2005-9, 64 percent of very low income households spend more than 30 percent of their income on housing.

The number of housing-burdened households in Oregon increased from 248,000 in 2004 to 266,000 in 2009.

Preservation – 1,383 department-financed units with federal subsidies are due to expire in the next two to seven years.

An estimated 1,900 Rural Development units with rental assistance are at risk in the next two years.

Who benefits?

Residents of the housing are the primary beneficiaries of the tax credit

- Families who earn less than 80 percent of median income.
- Nearly all families assisted with the OAHTC earn less than 50 percent of median income.
- Many earn less than 30 percent of median income.
- Families pay less for rent, thus becoming more financially stable.
- Monthly rent savings become an economic annuity that families can spend on other necessities within their communities.
- Since 2009, 58.9 percent of the units assisted with OAHTC targeted people with special needs and very limited incomes.

The state benefit from the continue stream of federal subsidies flowing into the state when we use OAHTC to preserve existing housing.

Developers of housing are better able to accomplish their missions of providing safe, decent affordable housing.

State and local economies benefit from the economic stimulus effect of affordable housing construction and preservation. The investments create jobs.

What will happen if the credit fully sunsets? Or is scaled down?

Fewer affordable housing units will be developed.

Oregon will have one less tool for preserving housing with existing federal subsidies, and could lose those federal subsidy dollars.

The state's private lenders would be less likely to participate in affordable housing development.

Oregon would lose access to capital leveraged with the credit.

Current resources do not meet the need; a limit on financing tools would widen the gap.

What background information on the effectiveness of this type of credit is available from other states?

No other state provides a tax credit for lenders that finance affordable housing projects at below-market interest rates.

Other states' credits are similar to the federal Low Income Housing Tax Credit and provide a tax credit to investors in exchange for a capital investment.

Some states deeply discount the credit.

Is the credit an effective and efficient way to achieve the policy goal?

The OAHTC is very efficient program to administer for OHCS.

Credits are awarded on a competitive basis.

To ensure that the rent reductions reach the tenants, OHCS conducts monitoring and developers submit annual Certificates of Compliance.

What other incentive are available that attempt to achieve a similar policy goal?

The department administers a number of housing finance tools such as federal and state grant funds, a federal low income housing tax credit and statutes that enable local-option property tax exemption.

However, no other programs generates the lower interest rate or engages private lenders in the same way.

Could the credit be modified to make it more effective and/or efficient?

OHCS and its partners find the current structure of the credit both efficient and effective.

Accomplishments

Overall program accomplishments

Since the inception of OAHTC, the department has awarded credits to 363 developments which created or preserved 13,836 units of affordable housing.

Preservation results

OAHTC is a significant tool in the preservation of federal rental subsidy projects, which is vital to the well being of many Oregon families.

- Since 2006, \$4 million in OAHTC cap has preserved 46 developments containing 1,974 units of federally subsidized housing. 1,809 of these units have project based rental assistance.
- Assisted with the financing of a manufactured park purchase which preserved 51 park spaces.
- Preservation of the 1,809 units with rental assistance generated:
 - An estimated \$220.3 million in federal rent subsidies over 20 years.
 - \$ 361.8 million in estimated replacement cost savings.

Benefits of tax credit and affordable housing development

For every \$1 of tax credit cap, \$25 is leveraged in low-interest rate financing.

- Since 2009, \$1.9 million of tax credits leveraged \$47.2 million in loans for 1,230 units.

Based on the department's *Housing as an Economic Stimulus* model, \$1 invested in affordable housing creates an average of \$11 in economic benefit.

Investing tax credits now to preserve existing federal subsidized housing is far cheaper than creating new housing.

- Since 2009, \$1.9 million in tax credits saved the state \$144.8 million in housing replacement costs.

Investment of tax credits to preserve existing federally subsidized housing maintains federal rent subsidies in the state for decades to come.

- Since 2009, \$1.9 million tax credits saved the state \$70.2 million in federal rent subsidies.

Benefits of tax credit and affordable housing development

Benefits for 1,230 units since 2009	(millions)
\$1.9 million in credits produced bank loans of	\$47.2
Cost of replacement housing	\$144.8
Federal subsidies retained (over 20 years)	\$70.2
Economic stimulus	\$121.1
Total benefits	\$383.3

Costs	(millions)
OAHTC Cost (\$1.9 million over 20 years)	\$28.5
Gap financing	\$15.3
Total cost	\$43.8

TOTAL NET BENEFIT

\$339.5

Summary of program strengths

Leverages bank and private investment for communities that may not otherwise see such investments. Projects might not be built.

100 percent of the tax credit **benefit goes to the tenant.**

The program is **extremely efficient**, with little program overhead. The credits are not discounted or sold, and all of it supports the legislature's policy goals and strengthens communities.

Delivers an **economic stimulus** effect.

Provides **lasting economic benefits** to local vendors for supplies and services such as landscaping, repairs and maintenance.

Frees tenants' limited income to pay for healthcare, food, clothing, and other necessities.

Number of OAHTC assisted developments by county

County	Number of developments
Baker	1
Benton	5
Clackamas	14
Clatsop	6
Columbia	3
Coos	5
Crook	2
Curry	3
Deschutes	14
Douglas	16
Gilliam	1
Harney	1
Hood River	6
Jackson	14
Jefferson	1
Josephine	4
Klamath	2

County	Number of developments
Lake	2
Lane	39
Lincoln	7
Linn	14
Malheur	3
Marion	24
Morrow	4
Multnomah	104
Polk	11
Tillamook	2
Umatilla	17
Union	7
Wallowa	2
Wasco	5
Washington	15
Yamhill	9
Total	363 developments