State of Oklahoma Incentive Evaluation Commission

Affordable Housing Tax Credit Program Evaluation

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Key Findings and Recommendations

Overview

The purpose of the Oklahoma Affordable Housing Tax Credit (AHTC) program is to expand the supply of new, affordable rental units and to rehabilitate existing rental housing for qualifying households by stimulating private investment. The tax credit is available for qualified projects[1] placed in service after July 1, 2015 in counties with a population of less than 150,000. The amount of the State credit is equal to the allocation of the federal Low Income Housing Tax Credit (LIHTC); the total allocated to all qualified new projects in an allocation year cannot exceed $4 million.

Recommendation: Based on its analysis of available data, the project team recommends reconfiguring the Affordable Housing Tax Credit program.

Key Findings Related to Established Criteria for Evaluation

- **While the State has long received federal LIHTCs, State AHTC funding introduced an additional $4 million for eligible projects each year beginning in 2015.** This new funding source effectively increased the total affordable housing tax credit allocation (state tax credits + federal LIHTCs) to more than $13 million annually.

- **Since the introduction of the State tax credits, the number of new affordable housing projects funded in Oklahoma has increased.** Between 2010 and 2014, the State (via the federal LIHTCs) funded an average of 16 projects annually. Since 2015, the State has funded at least 20 new affordable housing projects per year.

- **By 2024, the State program will cost Oklahoma (in terms of foregone revenue) a total of $40 million annually.[2]** While the total funding allocated to new projects in an allocation year cannot exceed $4 million, the credit period is up to 10 years after a project is placed into service. This means that the projects funded in the initial $4 million cohort in 2015 will collectively receive $4 million annually each year through 2024, for a total State investment of $40 million. The new projects funded in the second cohort in 2016 will also receive a total investment of $40 million between 2016 and 2025, and so on. As a result, the total cost to the State will increase by $4 million annually for the first ten years of the program until 2024, at which point it will level out at $40 million per year. This concept is illustrated in the following table.

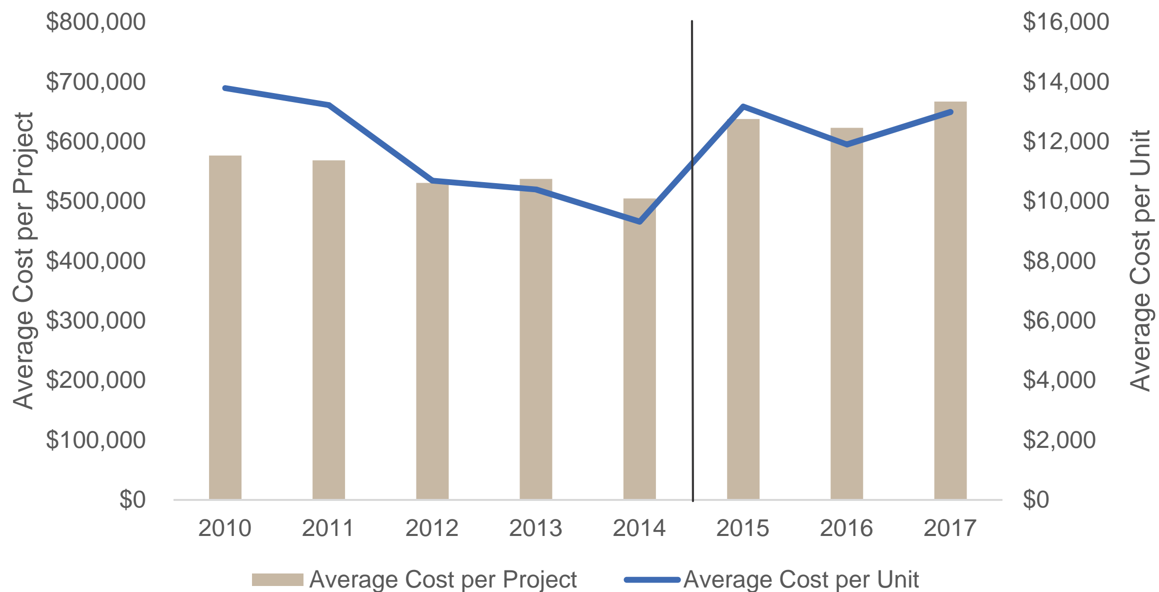
Table 1: Oklahoma Affordable Housing Tax Credit Program – Cost to State, 2015-2024 (in Millions)

Cohort	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0
2		$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0
3			$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0
4				$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0
5					$4.0	$4.0	$4.0	$4.0	$4.0	$4.0
6						$4.0	$4.0	$4.0	$4.0	$4.0
7							$4.0	$4.0	$4.0	$4.0
8								$4.0	$4.0	$4.0
9									$4.0	$4.0
10										$4.0
State Cost	**$4.0**	**$8.0**	**$12.0**	**$16.0**	**$20.0**	**$24.0**	**$28.0**	**$32.0**	**$36.0**	**$40.0**

[1] "Qualified project" means a qualified low-income building as that term is defined in Section 42 of the IRC of 1986, as amended.
[2] In the event that a project is not ultimately completed or otherwise becomes ineligible for funding, the credits may be retracted or retracted and the cost to the State would be reduced.

- **Since the introduction of the State credits, the average per-project and per-unit cost of new projects have both increased.** Prior to 2015, the average cost per project was between $500,000 and $580,000; the average cost per unit ranged from $9,300 to $13,800.[3] Both of these measures were generally trending downward over time. In each of the three years since the State credits were introduced (2015-2017), however, the average cost per project and cost per unit have increased, as shown in the following figure.

Figure 1: Average Per-Project and Per-Unit Affordable Housing Costs, 2010-2017



Source: OHFA

- **The Oklahoma AHTC program results in increased statewide economic activity, but it has a negative net economic impact.** Three years of project funding (2015-2017) generated an estimated $10.4 million in State tax revenue related to construction spending. Over the 10-year incentive period for the projects (2015-2024), the State will provide $116.5 million in tax credits, resulting in a net impact of -$106.1 million.

Other Findings

- **The affordable housing shortage is less prominent in Oklahoma than in many other states.** In Oklahoma, 49 homes exist for every 100 extremely low income renter households, lower only than Maine, Alabama, West Virginia, Mississippi, Kentucky, South Dakota and Montana (and tied with Arkansas). Among the 50 largest metropolitan areas in the U.S., Oklahoma City has less severe shortages of rental homes affordable to extremely low income households (42 per 100) than most. Only the Providence-Warwick RI-MA, Louisville/Jefferson County, KY-IN, Boston-Cambridge-Newton, MA-NH and Pittsburgh, PA metropolitan areas have more available rental homes affordable to extremely low income households.[4]

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[3] Costs provided are based on annual award (as opposed to total cost over 10 years) and include the state and federal amounts.
[4] Comparison made is meant to provide context. The AHTC is not available in Oklahoma City.

- **There still appears to be a need for increased affordable housing in Oklahoma.** A 2015 Statewide Affordable Housing Market Study commissioned by the Oklahoma Housing Finance Agency (OHFA) and the Oklahoma Department of Commerce found that of the nearly 23,000 housing units needed for rent through the year 2020, almost 12,000 (more than 50 percent) will be needed by households earning less than 60 percent of Area Median Income (AMI).[5]

- **Housing affordability is highly dependent on location.** In some areas, a family considered extremely low income would have little trouble finding affordable housing, while in another city, a family might have to pay much more for a similar home. The fair market rent (FMR) for an efficiency apartment ranges from $442 in the Okmulgee County metropolitan area to $569 in the Oklahoma County area; the FMR for a four bedroom apartment ranges from $936 in the Okmulgee County area to $1,358 in the Oklahoma County area.

- **Sixteen states (including Oklahoma) offer state-level affordable housing tax credit programs.** Most of these states base their programs on the federal LIHTC program. Among the states, there is some variation in criteria for state-specific project selection – such as the incorporation of environmental and energy efficiency standards, community impact and revitalization plans and projects with a 'readiness to proceed.'

- **Oklahoma is unique in its limitation of State credits to projects in counties with a population of less than 150,000.** While several other states have location stipulations within their eligibility guidelines, all others reference the federal LIHTC program statute, which requires that properties be located in a Qualified Census Tract (as opposed to basing qualification on the population of a given area). It is notable, however, that some rural states (such as Wyoming, Montana and Vermont) have directed a large proportion of their federal LIHTC resources to rural counties. At nearly 37 percent, Oklahoma ranks sixth nationally in rural LIHTCs as a share of total LIHTC units. Among states immediately surrounding Oklahoma, only Arkansas ranks in the top ten amongst states.[6]

- **The Tax Cuts and Jobs Act is likely to have an impact on the attractiveness of the federal affordable housing tax credits.** Some industry experts believe that the reduction in the federal corporate tax rate from 35 percent to 21 percent will dilute the value of the federal credits, because affordable housing investors are likely to owe significantly less in taxes and will therefore have less of a need to obtain tax credits from developers. As a result, those developers may build fewer affordable rental units in the next decade.[7]

- **The decision by legislators to tie the State tax credit to the federal credit results in more efficient, streamlined and accountable program administration.** The administrative burdens to the State beyond those for administering the federal tax credit program are minimal.

- **Several evaluations of the federal LIHTC program and its state counterparts have found the impact of the program to be difficult to analyze, or inconclusive, while others have found a low return on investment.** For instance, an evaluation of Missouri's LIHTC noted that inefficiencies result in a low return on the state's investment; the estimated return on investment was $0.12 for every $1.00 invested in the program.[8]

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[5] Each year, the Department of Housing and Urban Development (HUD) calculates the median income for every metropolitan region in the county. HUD focuses on the region – rather than just the city – because families searching for housing are likely to look beyond the city itself to find a place to live.
[6] Urban Institute – The Low Income Housing Tax Credit: Past Achievements, Future Challenges (July 2018). Accessed electronically at https://www.urban.org/sites/default/files/publication/98761/lithc_past_achievements_future_challenges_final_2.pdf
[7] Governing – Affordable Housing Shortage Expected to Worsen Under New Tax Law (February 21, 2018). Accessed electronically at http://www.governing.com/topics/finance/gov-affordable-housing-tax-credit.html
[8] Office of Missouri State Auditor – Tax Credit Programs (June 2017). Accessed electronically at https://app.auditor.mo.gov/Repository/Press/2017051896073.pdf

- **The AHTC incentive is not a traditional economic development program.** The legislation that created the incentive evaluation process defines an incentive as a "tax credit, tax exemption, tax deduction, tax expenditure, rebate, grant or loan that is intended to encourage businesses to locate, expand, invest or remain in Oklahoma, or to hire or retain employees in the State." The purpose of the AHTC program is to expand the supply of new and affordable rental units and rehabilitate existing rental housing for qualifying households by stimulating private investment. While outside the scope of this evaluation, there are claimed societal benefits from increasing the supply of affordable housing that may also be considered when analyzing the State's return on investment.

Recommended Program Modifications

Given the State's investment once the AHTC program is fully implemented, coupled with the sizeable negative net economic impact, the State may wish to explore modifying one or several aspects of the program to reduce the overall financial cost of the program to the State.

It is notable that the decision by legislators to tie the State tax credit to the federal process results in efficient, streamlined and accountable program administration. It is reasonable to assume that modifications to the program which would have the effect of making it less streamlined with the federal process would increase administrative burden – a point which should be taken into consideration.

The following are several options the State may consider for modifying future allocations of the AHTC program. Any changes should be "grandfathered" in so as to not impact those projects already under contract.

- **Reduce the $4.0 million annual allocation for new projects.** This would reduce the overall State investment, but it would also likely decrease the number of affordable housing projects and decrease the level of generated economic activity. Among the 16 states with comparable programs, 10 (including Oklahoma) place a flat cap on annual appropriations; Oklahoma's $4.0 million investment is low, higher only than Vermont ($0.4 million). Alternatively, Oklahoma could shift from a flat dollar cap to a percent of the federal allocation each year, though this would be less predictable than the current structure. Five states base their annual program caps on the federal funding available.

- **Shorten the 10 year credit period for future allocations.** Shortening the credit period for future allocations would decrease the State's total investment. Like Oklahoma, the States of Arkansas, Connecticut, Missouri, New York and Utah provide their credits over a 10 year period. Colorado and Nebraska offer their credits for six years, while Hawaii, Massachusetts and Vermont offer theirs for five years, and California provides theirs for four years. Illinois' credit period is one year. Georgia aligns its credit period with the federal program (currently 10 years), while New Mexico has a ten year credit period for multifamily projects and a five year period for single family projects.

- **Lower the annual State credit transaction cap.** This option would entail reducing the award amount on a per-project basis to some percentage less than 1-for-1 with the federal project allocation. It is possible this option would free up a portion of the state credits for additional housing projects, though it could be argued that these amounts would not be sufficient to warrant new projects. As currently constructed, state credits in Oklahoma, Georgia, Missouri and Nebraska are equal to 100 percent of the federal credits.[9] Other states (Arkansas, Hawaii, Minnesota and New Mexico) offer a smaller percentage of the federal allocation.[10] Still others (Connecticut, Massachusetts and Vermont) set the

[9] In Missouri, bond developments are subject to $700,000 cap in annual state LIHTCs.
[10] Minnesota's proposed plan, which has not been enacted, would provide one-sixth of the total federal LIHTC allowable under the 10-year federal period.

cap at a specific dollar value as opposed to a share of the federal credit.[11] Finally, other states (California and Colorado) have transaction caps based on a percentage of eligible costs or qualified basis.

Other Recommendations

- **Consider removing the statutory provision that precludes housing projects in Oklahoma's most populous counties from receiving funding.** The three counties precluded as a result of this provision (Cleveland, Oklahoma and Tulsa) comprise 43.0 percent of the state's population and 42.2 percent of the total housing units in the state. Further, while the State as a whole had 49 affordable and available rental homes per 100 renter households in 2016, the Oklahoma City metropolitan area had just 42, suggesting that the shortage in the more urban areas of the state may be more pronounced.

- **Consider making the tax credits refundable instead of transferable.** Critics of transferrable tax credits question whether it is good public policy for tax breaks to be sold to companies in industries the tax credits were not meant to incent. Additionally, selling the credits generally deflates their value, as they are typically sold by those companies at 85 to 90 cents on the dollar. Instead of making credits transferrable, it would be more impactful to make them refundable. Refundable credits provide a larger benefit to the original recipient at the same cost to the State, as these taxpayers would not sell them for less than full value.

[11] Massachusetts has a variable transaction cap, which ranges from $0.4 million to $1.0 million based on the number of units being built.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The first set of 11 evaluations were conducted in 2016, and an additional 12 were conducted in 2017.

The AHTC program is one of 11 incentives scheduled for review by the Commission in 2018. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

Industry and Incentive Background

The United States has a long-standing shortage of rental homes affordable and available to low income renter households. While the shortage is not as significant in Oklahoma as in most other states, a 2015 Statewide Affordable Housing Market Study found that of the nearly 44,000 housing units needed for ownership through the year 2020, approximately 7,500 (17.0 percent) will be needed by households earning less than 60 percent of AMI. Of the nearly 23,000 housing units needed for rent through the year 2020, almost 12,000 (more than 50 percent) will be needed by households earning less than 60 percent of AMI.

The purpose of Oklahoma's AHTC program is to expand the supply of new and affordable rental units and rehabilitate existing rental housing for qualifying households by stimulating private investment. The tax credit is available for qualified projects[12] placed in service after July 1, 2015 in counties with a population of less than 150,000. The amount of the State credit is equal to the allocation of the federal LIHTC; the total allocated to all qualified projects in an allocation year cannot exceed $4 million.

Criteria for Evaluation

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In the case of this credit, the specific goal included in legislation is to expand the supply of new affordable rental units and rehabilitate existing rental housing for qualifying households by stimulating private investment.

Additionally, to assist in a determination of program effectiveness, the Commission has adopted the following criteria:

- Number of housing projects funded by the program;
- Number of housing units associated with the credit;
- Change in qualified housing projects before/after the credit;
- Comparison to other states with/without similar credits; and
- State return on investment – economic activity versus financial net cost.

In some respects, this credit falls outside the typical incentive evaluation criteria. It is notable that the statutory language for determining an incentive subject to review by the Commission identifies them as "a tax credit, tax exemption, tax deduction, tax expenditure, rebate, grant, or loan that is intended to encourage businesses to locate, expand, invest, or remain in Oklahoma, or to hire or retain employees in Oklahoma." In this instance, the criteria do not focus on the business per se, but on other outcomes associated with use of the credit.

[12] "Qualified project" means a qualified low-income building as that term is defined in Section 42 of the IRC of 1986, as amended.

In this case, the criteria focus on influencing a specific activity – in this case, the construction of affordable housing. Ultimately, incentive programs have to weigh both the benefits (outcomes related to achieving policy goals and objectives) and the costs, and that is also a criterion for evaluation (State return on investment). These will be discussed throughout the balance of the evaluation.

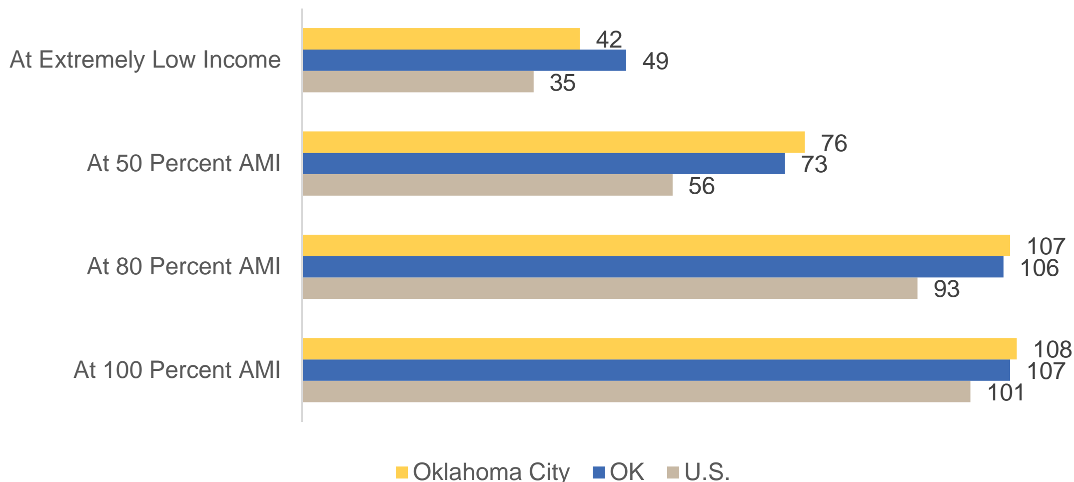
Affordable Housing Background

Affordable Housing Background and History

The United States has a long-standing shortage of rental homes affordable and available to low income renter households.[13] A study from the National Low Income Housing Coalition found that nationwide, 35 affordable and available rental homes exist for every 100 extremely low income renter households and 56 exist for every 100 renter households earning at or below 50 percent of AMI.[14]

The affordable housing shortage is less prominent in Oklahoma, where 49 homes exist for every 100 extremely low income renter households. Only the States of Maine (59), Alabama (58), West Virginia (58), Mississippi (57) Kentucky (55) South Dakota (53) and Montana (52) have less shortage of qualified homes. Among the 50 largest metropolitan areas in the U.S., Oklahoma City has less than average shortage of rental homes affordable to extremely low income households (42 per 100). Only Providence-Warwick RI-MA (47), Louisville/Jefferson County, KY-IN (46), Boston-Cambridge-Newton, MA-NH (46) and Pittsburgh, PA (45) have more available qualified homes.

Figure 2: Affordable and Available Rental Homes per 100 Renter Households, 2016



Source: National Low Income Housing Coalition (2018)

Despite these comparisons, a shortage of affordable housing exists in the state. A 2015 Statewide Affordable Housing Market Study commissioned by OHFA and the Oklahoma Department of Commerce found that of the nearly 44,000 housing units needed for ownership through the year 2020, approximately 7,500 (17.0 percent) will be needed by households earning less than 60 percent of AMI. Of the nearly 23,000 housing units needed for rent through the year 2020, almost 12,000 (more than 50 percent) will be needed by households earning less than 60 percent of AMI.

Housing affordability is highly dependent on location. In some areas, a family considered extremely low income would have little trouble finding affordable housing, while in another city, a family might have to pay much more for a similar home. Each year, the U.S. Department of Housing and Urban Development (HUD) estimates fair market rents (FMRs) for Office of Management and Budget (OMB)-defined metropolitan areas, some HUD-defined subdivisions of OMB metropolitan areas and each nonmetropolitan county. As shown in the following table, the FMR for an efficiency apartment ranges from $442 in the Okmulgee County metropolitan area to $569

[13] Housing is considered affordable when housing costs (including utilities) account for no more than 30 percent of household income.
[14] National Low Income Housing Coalition – The Gap: A Shortage of Affordable Homes (March 2018). Accessed electronically at http://nlihc.org/sites/default/files/gap/Gap-Report_2018.pdf

in the Oklahoma County area; the FMR for a four bedroom apartment ranges from $936 in the Okmulgee County area to $1,358 in the Oklahoma County area.

Table 2: FY2017 Oklahoma FMR Metropolitan Area Summary

Metropolitan Area	Efficiency	One Bedroom	Two Bedroom	Three Bedroom	Four Bedroom
Cotton County, OK	$512	$589	$679	$850	$1,034
Fort Smith, AR-OK	$493	$511	$679	$901	$1,100
Grady County, OK	$486	$524	$679	$916	$1,047
Lawton, OK	$556	$560	$744	$1,048	$1,176
Le Flore County, OK	$533	$540	$679	$894	$1,027
Lincoln County, OK	$486	$562	$679	$849	$951
Oklahoma City, OK	$569	$630	$807	$1,108	$1,358
Okmulgee County, OK	$442	$589	$679	$866	$936
Pawnee County, OK	$450	$567	$679	$884	$1,041
Tulsa, OK	$535	$630	$818	$1,105	$1,215

Source: U.S. Department of Housing and Urban Development
Green cells denote the comparably lowest FMR by unit type
Red cells denote the comparably highest FMR by unit type

Home prices and rents in Oklahoma are also increasing faster than incomes. From 2009 to 2016, median household incomes in Oklahoma grew by a compound annual growth rate (CAGR) of 2.0 percent, but median gross rent increased by a CAGR of 2.7 percent, and median home values rose by a CAGR of 3.0 percent. During this time frame, household income increased by 14.8 percent while rent increased by 20.8 percent and home values by 22.8 percent.

Table 3: Oklahoma Median Household Income, Gross Rent and Home Value, 2009-2016

	2009	2016	CAGR 2009-2016	% Increase 2009-2016
Median Household Income (MHI)	$41,861	$48,038	2.0%	14.8%
Median Gross Rent	$614	$742	2.7%	20.8%
Median Home Value*	$98,800	$121,300	3.0%	22.8%
Annual Gross Rent as % of MHI	17.6%	18.5%	0.7%	5.3%

Source: U.S. Census Bureau American Community Survey 5-Year Estimates
** Owner-occupied housing units*

There is more profit in renting high-cost units than low-cost ones, which is a primary reason for the affordable housing shortage. As a result, while rental construction is at the highest level in two decades, it is unevenly distributed. The number of available high-end units increased by 97 percent between 2005 and 2015, while the number of low-end units renting for less than $800 monthly declined by 2 percent.[15]

Federal Low Income Housing Tax Credits

In addition to supply-side programs (such as vouchers for renters or private landlords), the federal government created the LIHTC program to incentivize the production of affordable housing. This program was created under the Tax Reform Act of 1986 and is the largest incentive for new affordable housing in the U.S. An indirect subsidy, the program provides dollar-for-dollar federal tax credits to encourage developers to create affordable housing. Developers then sell the credits to investors and use the proceeds to build affordable housing.

[15] Joint Center for Housing Studies of Harvard University

Investors can also claim tax deductions from depreciation and other losses on the project that reduce taxable income. Investors' equity contributions subsidize low-income housing development, thus allowing some units to rent at below-market rates.

Once an applicant is granted a tax credit, the developer must leverage the financial resources for the development. Under a typical LIHTC transaction, a developer secures a conventional loan from a private mortgage lender or public agency, gap financing from public or private source and equity from the developer or private investor in exchange for the tax credits.

Federal tax credits are provided to each state based on population and are distributed to each state's designated tax credit allocating agency. At the inception of the federal program, states received $1.25 per resident. In 2001, the cap was increased to $1.50, and in 2002, it was increased to $1.75. Beginning in 2003, the cap was adjusted for inflation. In 2018, states were scheduled to receive a LIHTC allocation of $2.40 per person, with a minimum small population state allocation of $2.8 million. The 2018 Consolidated Appropriations Act increased the amount of credits states will receive by 12.5 percent through 2021.

Each state's allocating agency distributes the tax credits based on the state's affordable housing needs within broad federal program requirements. The IRS requires that state allocation plans prioritize projects that serve the lowest-income tenants and ensure affordability for the longest period. Two types of credits are available: "nine percent" credits, which are typically used for new construction and are highly competitive, and "four percent" credits, which are often combined with state bond financing.

Even with the credit, certain basic economic principles will influence where financed affordable housing will be built. Tax credit housing is generally located where the land costs are lower and the tax credit allowable rents are sufficient to allow for market-rate rents. These required basic market conditions make it more difficult to build financed housing in major cities, because land costs are higher and low-income rents are substantially below market rate.[16]

Federal Housing Tax Credit Outlook

Despite the increase in the federal LIHTC allocation, some industry experts believe that the reduction in the corporate tax rate from 35 percent to 21 percent as part of the Tax Cuts and Jobs Act (TCJA) will dilute the value of the federal credits and make them less attractive. They argue that affordable housing investors are likely to owe significantly less in taxes and will have less of a need to obtain tax credits from developers. As a result, developers will build fewer affordable rental units in the next decade.[17]

According to one estimate, the drop in the corporate tax rate will reduce the overall value of the LIHTC program by approximately $1.7 billion (14 percent) annually. That translates over ten years into an estimated 200,000 or more affordable rental homes that may not be built. San Francisco's Director of the Mayor's Office of Housing and Community Development has argued that a lower corporate tax rate (and thus less federal subsidy through the tax benefit) has already made an impact, increasing the costs of affordable housing construction by about $50,000 per unit.[18] It could be argued that these federal tax changes will increase the importance of the State credits.

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[16] Discussion of federal LIHTC program taken from Novogradac and Company, LLP: Affordable Housing Resource Center. Accessed electronically at https://www.novoco.com/resource-centers/affordable-housing-tax-credits/lihtc-basics/about-lihtc

[17] Governing – Affordable Housing Shortage Expected to Worsen Under New Tax Law (February 21, 2018). Accessed electronically at http://www.governing.com/topics/finance/gov-affordable-housing-tax-credit.html

[18] Conor Dougherty. Tax Overhaul is a Blow to Affordable Housing Effects. The New York Times. January 18, 2018. Accessed electronically at: https://www.nytimes.com/2018/01/18/business/economy/tax-housing.html

Incentive Usage and Administration

Incentive Characteristics

Using the federal program as a basis, many states – including Oklahoma – have created their own programs to further aid in the production of affordable housing.[19] Since the program was enacted on July 1, 2015, the Oklahoma AHTC program has sought to expand the supply of new and affordable rental units and rehabilitate existing rental housing for qualifying households by stimulating private investment.

As with the federal LIHTC program, the State AHTC program is structured as an investment tax credit where a developer submits a project application. Once approved, developers sell the credits to investors who then take an equity position in the projects.

Eligible activities include acquisition, substantial rehabilitation and new construction. The tax credit is available for qualified projects placed in service after July 1, 2015 in counties with a population of less than 150,000; as a result of the population threshold, projects in Cleveland, Oklahoma and Tulsa Counties are currently ineligible.[20] The amount of the State credit for each approved project is equal to the federal LIHTC allocation for the same project.

The total funding allocated to all qualified new projects in an allocation year cannot exceed $4 million. The credit period is up to 10 years after a project is placed into service. As a result, the projects funded in the initial $4 million cohort in 2015 will collectively receive $4 million annually each year through 2024, for a total State investment of $40 million in forgone revenue.[21] The new projects funded in the second cohort in 2016 will also receive a total investment of $40 million between 2016 and 2025, and this will also be the case in subsequent years. As a result, the total cost to the State will increase by $4 million annually for the first 10 years of the program until 2024, when it will level out at $40 million per year. This concept is illustrated in the following table.

Table 4: Oklahoma Affordable Housing Tax Credit Program – Cost to State, 2015-2024 (in Millions)

Cohort	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0
2		$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0
3			$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0
4				$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0
5					$4.0	$4.0	$4.0	$4.0	$4.0	$4.0
6						$4.0	$4.0	$4.0	$4.0	$4.0
7							$4.0	$4.0	$4.0	$4.0
8								$4.0	$4.0	$4.0
9									$4.0	$4.0
10										$4.0
State Cost	**$4.0**	**$8.0**	**$12.0**	**$16.0**	**$20.0**	**$24.0**	**$28.0**	**$32.0**	**$36.0**	**$40.0**

Tax credits are equal to roughly 4 percent or 9 percent of a project's qualified basis (i.e. cost of construction). However, the applicable credit rates have historically not been 4 percent and 9 percent. Instead, the credit rates have fluctuated in response to market interest movements so that the program has delivered a subsidy equal to 30 percent of the present value of a project's qualified basis in the case of the 4 percent credit, and 70 percent

[19] These programs will be discussed in the Incentive Benchmarking Chapter of this report.
[20] "Qualified project" means a qualified low-income building as that term is defined in Section 42 of the Internal Revenue Code of 1986, as amended.
[21] In the event that a project is not ultimately completed or otherwise becomes ineligible for funding, the credits may be retracted or retracted and the cost to the State would be reduced.

in the case of the 9 percent credit. For both credit types, it is the subsidy levels (30 percent and 70 percent) that are explicitly specified in the Internal Revenue Code (IRC), not the credit rates.[22]

In alignment with the federal program, State credits are claimed over a 10 year period but have a 15 year compliance period, meaning that the affordability must be preserved for 15 years in order to qualify for all 10 years of the tax credits. This means that a portion of credits being claimed in years 1 through 10 has not yet been earned. If, under IRC Section 42, a portion of any federal LIHTCs taken on a qualified project is required to be recaptured during the years after a project is placed in service, the taxpayer claiming the State credits with respect to the project must also recapture a portion of the State credits. In other words, because the State AHTC program is linked directly to the federal credit, if any portion of the federal tax credits are recaptured, this will trigger recapture of the proportionate amount of the state tax credit. The recapture of credits is an important provision, as projects can run into complications and not move forward. If legislation does not allow for recapturing and reassigning credits, they are permanently lost.

Credits are non-refundable and cannot be used to reduce a tax liability accruing prior to January 1, 2016, but they may be carried forward for five years. Additionally, the credits are transferrable.

Historic Use of the Credit

The introduction of the State credit had the impact of increasing the total affordable housing allocation by 46.0 percent. The number of affordable housing projects funded and units built increased during that time, but to a lesser degree (17.6 percent and 16.8 percent, respectively), as shown in the following table.

Table 5: Federal and State Affordable Housing Tax Credits by Allocation Year, 2013-2017

	2013	2014	2015	2016	2017	% Increase 2013-2017
Federal Credits Allocated ($ Millions)	$9.1	$8.6	$9.5	$9.3	$9.3	2.2%
State Credits Allocated ($ Millions)	$0.0	$0.0	$3.9	$3.8	$4.0	-
Total Affordable Housing Allocation ($ Millions)	**$9.1**	**$8.6**	**$13.4**	**$13.1**	**$13.3**	**46.0%**
Total Projects Funded	17	17	21	21	20	17.6%
Total Units Built	879	921	1,017	1,099	1,027	16.8%

Source: OHFA

In the years preceding the first State credit allocations in 2015, Oklahoma's federal LIHTC allocation facilitated the building of between 11 and 18 projects annually – at an average cost of between $500,000 and $580,000 per project and between $9,300 and $13,800 per unit, as shown in the following table. It is notable that the average cost per project and per unit were generally trending downward in the years leading up to the 2015 introduction of the State credits.

Table 6: Federal Low Income Housing Tax Credit Activity, 2010-2014

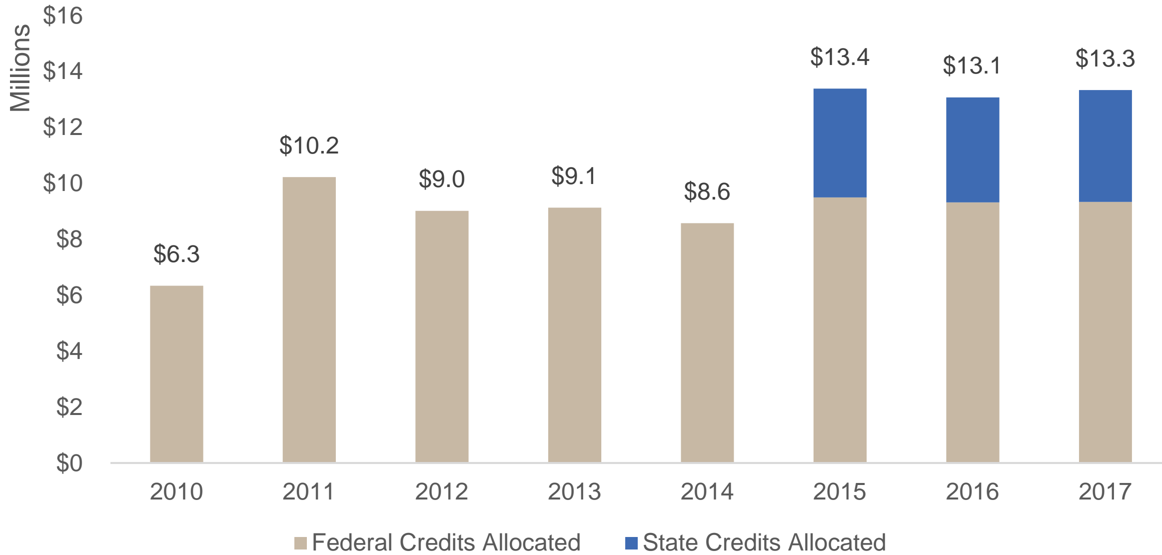
	2010	2011	2012	2013	2014
Federal Credits Allocated	$6,341,668	$10,229,352	$9,018,922	$9,133,823	$8,580,253
Total Projects	11	18	17	17	17
Total Units	460	774	844	879	921
Cost per Project	$576,515	$568,297	$530,525	$537,284	$504,721
Cost per Unit	$13,786	$13,216	$10,686	$10,391	$9,316

Source: OHFA

[22] Congressional Research Service – An Introduction to the Low-Income Housing Tax Credit (March 28, 2018). Accessed electronically at https://fas.org/sgp/crs/misc/RS22389.pdf

The State tax credit allocation introduced an additional $4 million of available funding for new projects each year beginning in 2015, which increased the total affordable housing tax credit allocation to more than $13 million annually, as shown in the following table.

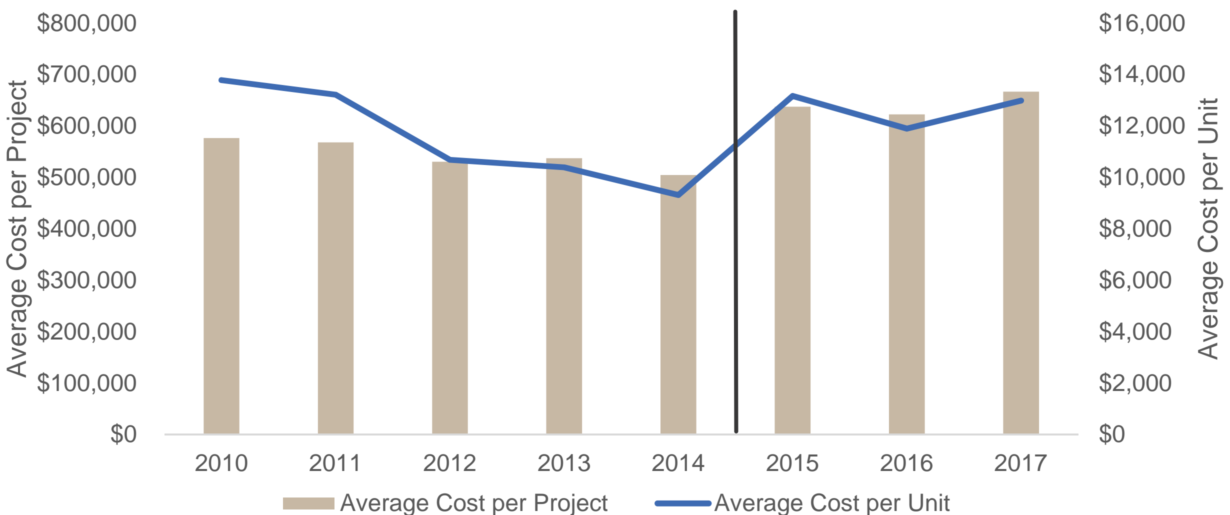
Figure 3: Oklahoma Affordable Housing Tax Credit Allocation for New Projects, 2010-2017



Source: OHFA

Since the State program began, the total number of projects and total units built have increased, with 21 projects funded in 2015 and 2016 and 20 funded in 2017. However, the average cost on a per-project and per-unit basis have increased, as shown in the following figure. Since 2015, the average cost per project has been $642,000 (as compared to $543,000 between 2010 and 2014) and the average cost per unit has been $12,700 (as compared to $11,400).

Figure 4: Average Per-Project and Per-Unit Cost of Affordable Housing, 2010-2017



Source: OHFA

In recent years, rising development costs and cuts to housing programs have led to a decline in the number of LIHTC units being built. Overall, the 2014 count of total units built nationwide decreased by approximately 4.5 percent. Affordable housing developers cited rising development costs as their biggest concern in a survey by *Affordable Housing Finance*, which found that the average development cost per unit for new construction projects increased from $238,296 in 2014 to $253,984 in 2015. Simultaneously, federal HOME funds, a key source of gap financing for LIHTC developments, have been cut in half.[23]

Additionally, several factors (location, project type, unit size, etc.) influence total development costs (TDC). A 2018 study published by the National Council of State Housing Agencies found a strong positive relationship between per-unit TDC and being located in a principal city in a metropolitan area. Projects located in Difficult to Develop Areas and Qualified Census Tracts had higher costs than projects in other areas. The study also found that developing new projects was more expensive than rehabilitating existing buildings, and projects developed with 9 percent LIHTC credits had higher per-unit costs than projects developed with 4 percent LIHTC credits. Projects with more units were less expensive, likely due to the fact that fixed costs can be spread over a greater number of units. An increase of 10 units was associated with a $3,000 decrease in per-unit TDC. Per-unit TDC was also highest for units in projects targeting people with special needs and the homeless, and lowest in projects for the elderly.[24]

Transferability

While no insurance companies claimed affordable housing tax credits in 2015, in 2016, two insurance companies made claims totaling $158,000.[25] Critics of transferrable tax credits question whether it is good public policy to sell tax credits to companies in industries that the tax credits were never meant to incent. Additionally, selling the credits generally deflates their value, as they are typically sold at 85 to 90 cents on the dollar. Instead of making credits transferrable, it would be more impactful to make them refundable. Refundable credits provide a larger benefit to the original recipient at the same cost to the State.

Population-Based Eligibility Limitations

As discussed previously, State tax credits are available in counties with a population of less than 150,000 and as a result, projects in Cleveland, Oklahoma and Tulsa Counties are currently ineligible (though projects in those counties may qualify for federal credits). These three counties comprise 43.0 percent of the state's population and 42.2 percent of total housing units in the state.

Table 7: Selected Demographic Indicators of Counties Ineligible for State Credits

	Population	Total Housing Units
Tulsa County	629,823	277,178
Oklahoma County	764,698	330,235
Cleveland County	271,818	110,336
State of Oklahoma	**3,875,589**	**1,699,462**
High-Pop Counties as % of Total	*43.0%*	*42.2%*

Source: U.S. Census Bureau American Community Survey

[23] Affordable Housing Finance – LIHTC Unit Numbers Decline (September 15, 2016). Accessed electronically at https://www.housingfinance.com/news/lihtc-unit-numbers-decline_o
[24] ABT Associates for the National Council of State Housing Agencies – Variation in Development Costs for LIHTC Projects (August 30, 2018). Accessed electronically at https://www.ncsha.org/wp-content/uploads/2018/09/Final-LIHTC-Costs-Analysis_2018_08_31.pdf
[25] As of the date of this report, audits of 2017 returns are incomplete; information regarding insurance company claims is not yet available.

Incentive Administration

Overall, the decision by legislators to tie the State tax credit to the federal process results in efficient, streamlined and accountable program administration. The incremental burdens to the State above and beyond those involved in the administration of the federal tax credit program are minimal.

To qualify for the Oklahoma AHTCs, projects must also qualify for the federal tax credit, meeting the requirements established by HUD and Section 42 of the IRC. OHFA serves as the initial point of contact for federal and State tax credit applicants and in addition will, from time to time, provide AHTC program technical assistance regarding the Code, Rules, the AP and their implementation and proposed development concepts. The basic AHTC program administrative process has three key components:

1. **Determining eligibility.** Each year, Tax Credit Allocations (TCAs) are made available to eligible developers, including for-profit developers, nonprofits, public agencies, Native American tribes, private developers and local governments. TCAs may be for amounts less than applied for based upon OHFA's financial and feasibility analyses.

   Tax credits allocated annually to the State by the IRS are awarded to applicants selected though a formal application process governed by the Qualified Allocation Plan (QAP). The annual allocation made available to the State may be divided into various set-aside categories, including nonprofits, new construction and rehabilitation. TCAs are awarded following a thorough review and financial feasibility analysis.

   Federal law requires that the QAP give priority to projects that serve the lowest income households that remain affordable for the longest period of time. In order to be eligible for a LIHTC allocation (and therefore a state allocation), properties are required to meet certain tests that restrict both the amount of rent that is assessed to tenants and the income of eligible tenants. Historically, the "income test" for a qualified low-income housing project has required project owners to elect one of two income level tests, either a 20-50 test or a 40-60 test. In order to satisfy the first test, at least 20 percent of the units must be occupied by individuals with income of 50 percent or less of the area's median gross income, adjusted for family size. To satisfy the second test, at least 40 percent of the units must be occupied by individuals with income of 60 percent or less of the area's median gross income, adjusted for family size.[26]

   The Consolidated Appropriations Act of 2018 added a third income test option that allows units to serve households earning as much as 80 percent of AMI, as long as the average imputed income limit of the property is 60 percent of less of AMI. Higher rents that households with incomes above 60 percent of AMI pay will have the potential to offset the lower rents for households living in units designated at lower income levels. According to OHFA, income averaging preserves rigorous targeting to low-income households while providing more and greater income-mixing potential.[27]

2. **Applicant review and award.** After completing a review of all applications, OHFA forwards its preliminary review report to the contact person identified in the application. The applicant must provide OHFA with any information requested in the preliminary review report. OHFA considers the applicant's response to the preliminary review report prior to issuing the final review report and making its recommendations to the Trustees. Applicants are informed of those recommendations prior to the meeting of the Trustees where the application is being considered.

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[26] Congressional Research Service – An Introduction to the Low-Income Housing Tax Credit (March 28, 2018). Accessed electronically at https://fas.org/sgp/crs/misc/RS22389.pdf

[27] Oklahoma Housing Finance Agency – Income Averaging Amendment to 2018 QAP. Accessed electronically at https://www.ok.gov/ohfa/documents/OHFA%20Income%20Averaging%20QAP%20Amendment%20Board%20Final.pdf

A total of $2 million of the State tax credits is available to those applicants applying for 4 percent credits and bond financing for new construction; the additional $2 million is available for those applicants applying for 9 percent tax credits for new construction and rehabilitation. The 4 percent applicants are ranked by performance on the 40-60 income test as described above (i.e. the highest percentage of units to be occupied by individuals with income of 60 percent or less of AMI). If more than one development is in the same county, applications are ranked by highest number of proposed units. If there are still insufficient funds to fund all 4 percent applications with State tax credits, then a drawing is conducted. The applications for 9 percent State tax credits are ranked using the current selection criteria. Applicants applying for federal tax credits are not required to apply for State credits. If there are insufficient funds, the application is denied.

3. **Monitoring procedures.** Section 42(m)(1)(B)(iii) of IRS Code mandates that state housing credit agencies monitor all placed-in-service tax credit projects for compliance with the provisions of Section 42. The Code also mandates that the IRS be notified by the state housing agencies of any instances of noncompliance. OHFA will also monitor for compliance with the Regulatory Agreement provisions which contain additional owner commitments made to receive points in the project selection process, such as additional low-income units or an extended use period. OHFA also monitors the documents and certifications set forth in 330:36-6-7(b) and (c) for compliance with IRS Code. Provisions include:

    a. Record keeping and record retention provisions;
    b. Certification and review provisions;
    c. Auditing/compliance provisions; and
    d. Notification of noncompliance provisions.

Tax Commission Role

The Oklahoma Tax Commission (OTC) processes State tax returns and addresses taxpayer questions regarding OTC rules for using the State tax credits. The owner of a qualified project receiving State tax credits submits, at the time of filing a tax return with the OTC, an Eligibility Statement from OHFA. The statement is issued and provided to the owner along with the 8609s for the project after all final cost certifications and accountant reports have been submitted to OHFA and OHFA has performed a final underwriting to ensure the final amount of credits the project is eligible to receive.

Economic and Fiscal Impact

Economic Impact Methodology

Economists use a number of statistics to describe regional economic activity. Four common measures are **Output,** which describes total economic activity and is generally equivalent to a firm's gross sales; **Value Added,** which equals gross output of an industry or a sector less its intermediate inputs; **Labor Income,** which corresponds to wages and benefits; and **Employment,** which refers to jobs that have been created in the local economy.

In an input-output analysis of new economic activity, it is useful to distinguish three types of effects: **direct, indirect, and induced.**

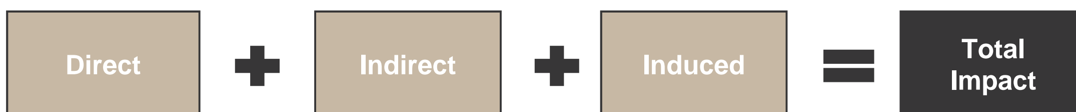
Direct effects are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator or the taxi fare paid for transportation while in town are examples of direct effects.

Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services. The taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic output of other local merchants.

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor's stay, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which increased income is spent in the local economy.

A multiplier reflects the interaction between different sectors of the economy. An output multiplier of 1.4, for example, means that for every $1,000 injected into the economy, all other sectors produce an additional $400 in output. The larger the multiplier, the greater the impact will be in the regional economy.

Figure 5: The Flow of Economic Impacts



Fiscal Impact

The purpose of the Oklahoma AHTC program is to expand the supply of new, affordable rental units and rehabilitate existing rental housing for qualifying households by stimulating private investment. Each year, the program allocates up to $4.0 million for new qualified projects. The selected projects receive this credit amount for 10 years.

Based on data provided by OHFA, the number of projects funded has increased since Oklahoma created the state credit program in 2015, as shown in the following table. This is not surprising, since the need for affordable housing is an ongoing issue for all states.

Table 8: Federal and State Affordable Housing Tax Credits, 2013-2017

	2013	2014	2015	2016	2017
Federal Credits Allocated	$9,133,823	$8,580,253	$9,498,832	$9,321,785	$9,337,449
State Credits Allocated	-	-	$3,892,294	$3,755,535	$4,000,000
Total Projects	17	17	21	21	20
Total Units	879	921	1,017	1,099	1,027
Total Cost of Construction for Projects Receiving State Credits	-	-	$68,855,760	$71,164,738	$94,069,888

Source: OHFA

It is difficult to fully capture the economic and community benefits of an affordable housing program. Providing a family safe and secure long-term housing has positive benefits in terms of employment, income and health. In addition, the public sector is likely to provide fewer social services to families that are not homeless or have adequate housing. It is beyond the scope of this analysis to measure these long-term "tax savings" or increases in productivity based on this program.

The AHTC program does result in increased economic activity in the construction sector – but the increase is temporary, lasting only during the construction period. The incentive, however, lasts for 10 years. Given the economic implications of rent restricted units, it is reasonable to assume that but for the program, the majority of this housing would not be available to low income residents. Given the relatively small amount of annual funding available, it is unlikely that this program has a negative impact on other residential projects (e.g. increases in land prices or wages in the construction sector).

For the three years the state tax credit program has been in existence (2015 to 2017), the annual economic impact of increased construction activity was calculated using IMPLAN Sector 60 Construction – Multi-Family Structures. The following tables depict the statewide annual impact of the construction sector.

Table 9: Impact of Affordable Housing Tax Credits

Year		Output	Value Added	Labor Income	Employment	Estimated Oklahoma Tax Revenue
2015	Direct Effect	$68,855,760	$29,055,391	$24,993,078	471	
	Indirect Effect	$36,139,650	$17,946,816	$12,023,760	260	
	Induced Effect	$28,616,527	$15,662,899	$8,753,422	216	
	Total Effect	**$133,611,937**	**$62,665,106**	**$45,770,260**	**947**	**$3,383,916**
2016	Direct Effect	$70,492,237	$29,371,102	$25,264,649	482	
	Indirect Effect	$36,998,572	$18,373,353	$12,309,526	266	
	Induced Effect	$29,047,915	$15,898,994	$8,885,379	220	
	Total Effect	**$136,538,724**	**$63,643,449**	**$46,459,554**	**968**	**$3,118,529**
2017	Direct Effect	$92,300,382	$38,706,109	$33,294,503	632	
	Indirect Effect	$48,444,800	$24,057,508	$16,117,717	348	
	Induced Effect	$38,199,341	$20,907,919	$11,684,681	289	
	Total Effect	**$178,944,523**	**$83,671,536**	**$61,096,901**	**1,269**	**$3,848,891**

Source: TXP, Inc. IMPLAN analysis output, September 2018

Table 10: Annual Tax Revenue Generated

	Tax Credit	Estimated Oklahoma Tax Revenue	Net Impact
2015	$38,922,940	$3,383,916	($35,539,024)
2016	$37,555,350	$3,118,529	($34,436,821)
2017	$40,000,000	$3,848,891	($36,151,109)
Total	**$116,478,290**	**$10,351,335**	**($106,126,955)**

Source: TXP, Inc. IMPLAN analysis output, September 2018

As illustrated in the preceding tables, the AHTC program does result in increased statewide economic activity. The level of economic activity varies each year and is directly linked to the amount of the tax credit granted in that year. Multiplying the total value added figure produced by the IMPLAN model by the corresponding annual tax ratio provides an estimate for total annual State of Oklahoma tax revenue. Over the three year period (2015-2017), the AHTC program, via direct, indirect and induced economic effects, generated approximately $10.4 million in State tax revenue related to construction spending. Over the 10-year incentive period for the projects (2015-2024), the State will provide $116.5 million in tax credits, resulting in a net impact of -$106.1 million.

Incentive Benchmarking

Benchmarking

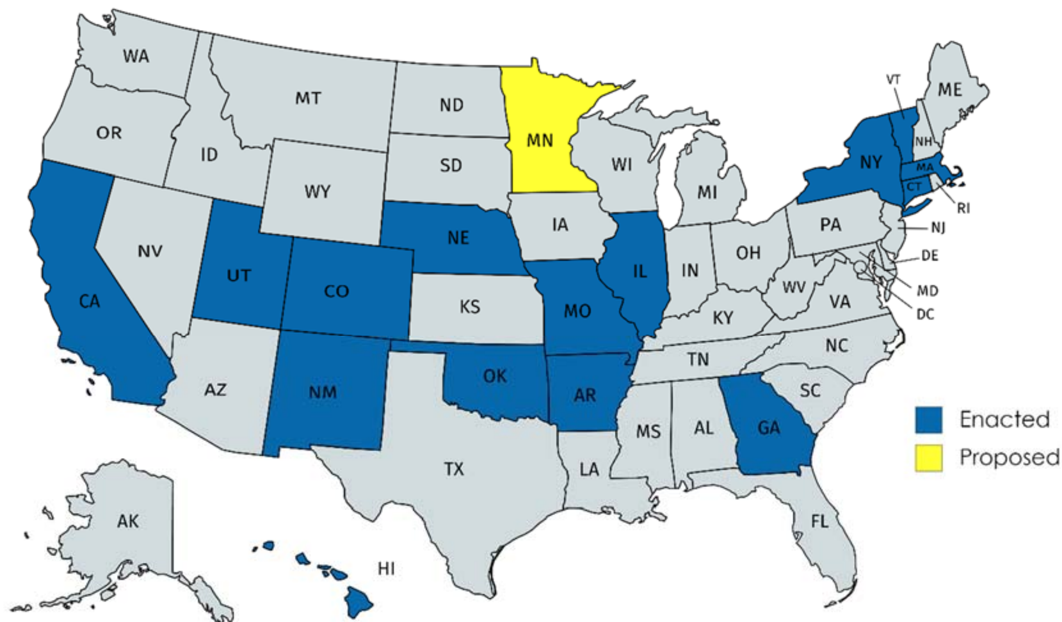
A detailed description of comparable state programs can be found in **Appendix A.**

For evaluation purposes, benchmarking provides information related to how peer states use and evaluate similar incentives. At the outset, it should be understood that no states are 'perfect peers' – there will be multiple differences in economic, demographic and political factors that will have to be considered in any analysis; likewise, it is exceedingly rare that any two state incentive programs will be exactly the same.[28] These benchmarking realities must be taken into consideration when making comparisons – and, for the sake of brevity, the report will not continually re-make this point throughout the discussion.

The process of creating a comparison group for incentives typically begins with bordering states. This is generally the starting point, because proximity often leads states to compete for the same regional businesses or business/industry investments. Second, neighboring states often (but not always) have similar economic, demographic or political structures that lend themselves to comparison.

A total of 16 states were found to provide state-level affordable housing tax credit programs in addition to participating in the federal program. The following discusses some of the key characteristics of these programs.

Figure 6: Map of States with Comparable Programs



Other State Program Structures

With the exception of **New York** and **Utah**, state affordable housing tax credit programs are based on the federal LIHTC program. A basic tenet of this relationship is that each of these states have recapture guidelines, which, as mentioned previously, are an important provision of any State policy. Projects can run into complications and not move forward, and if legislation does not allow for recapturing and reassigning credits, they are permanently lost.

[28] The primary instances of exactly alike state incentive programs occur when states choose to 'piggyback' onto federal programs.

State eligibility and selection criteria is stricter than the federal government's minimums and generally results in larger percentages of reserved units for low-income individuals and families. There is some variation in criteria prioritization for state specific project selection. For instance, some programs specifically prioritize incorporating environmental and energy efficiency standards for new projects (**New York** and **Vermont**), affordable homeownership options (**Colorado** and **New Mexico**), community impact and revitalization plans (**Colorado, Connecticut, Missouri** and **New York**), and housing for residents with special needs considerations (**California, Colorado, New York, Utah** and **Vermont**). **Connecticut, New Mexico** and **New York** also place a priority on projects with a 'readiness to proceed.'

While some states have location stipulations within their eligibility guidelines, all are in reference to the federal LIHTC program statute requiring properties be located in a Qualified Census Tract (at least 50 percent of households have an income less than 60 percent of the Area Median Gross Income) to qualify for participation in the incentive program. In fact, **Connecticut** specifically designates programming to urban areas and places emphasis on urban and community revitalization. Oklahoma is unique in its provision that State credits are available only in counties with a population of less than 150,000.

State program specifics vary with regard to annual funding and transaction caps, credit period, and compliance requirements (as described below); however, all are connected to the federal baseline. All programs require sustainable, long-term, affordable housing opportunities for low-income families.

Annual State Cap

States cap their programs in two ways: a flat dollar amount, or as a percent of the federal credit. Ten states (including Oklahoma) place a flat cap on annual appropriations. Relative to these other states, Oklahoma's cap of $4.0 million is lower, higher only than Vermont ($0.4 million). Five additional states base their annual program caps on the federal funding available.

Table 11: Annual State Tax Credit Caps[29]

State	Annual Cap
States with a Specific Cap	
Oklahoma	**$4.0 million**
Arkansas	Varies from year to year
Connecticut	Up to $10.0 million, with $2.0 million set-aside for supportive housing and $1 million is set-aside for workforce housing as defined by CHFA.
Colorado	$5.0 million
Illinois	$21.4 million (2018)
Massachusetts	$20.0 million through 2019; $10.0 million after 2019
Minnesota (Proposed)	$7.0 million
Missouri	Developments cannot receive the federal allocation award so the maximum amount of 9 percent credits is the federal allocation, $14.3 million in 2016. Bond developments are subject to a fiscal year cap total authorization of $6.0 million.
New Mexico	$4.9 million
Vermont	$0.4 million

[29] Utah's annual cap not available.

States with a Cap that Corresponds with Federal Funding	
California	Based on available federal funding
Georgia	The annual State credit dollar amount equals that of the federal credit
Hawaii	50% of federal credit
Nebraska	Total state LIHTC allocations are limited to the amount of the federal LIHTC available
New York	Based on federal funding available

Source: Novogradac and Company LLP

Transaction Cap

The transaction cap per project for state tax credits varies greatly from state to state. Missouri and Nebraska are the only other states, in addition to Oklahoma, that set the credit at 100 percent of the federal amount. Several other states provide a percent of the federal amount. Still others cap projects at a flat amount or as a percent of the total allocation.

Table 12: Annual State Tax Credit Transaction Caps

State	Transaction Cap
Oklahoma	**100% of federal**
Arkansas	20% of federal
California	30% of eligible for 9% credits; 13% of eligible for 4% credits
Colorado	30% of qualified basis
Connecticut	$500,000 per funding year
Georgia	Annual state credit dollar amount equals that of the federal
Hawaii	50% of federal
Illinois	50% of donations
Massachusetts	$400,000 for developments with 40 or fewer units $700,000 for developments with 41-60 units $1,000,000 for developments with greater than 60 units
Minnesota (Proposed)	1/6 of the total federal LIHTC allowable under the 10-year federal period
Missouri	100% of the federal allocation Bond developments subject to $700,000 cap in annual state LIHTCs
Nebraska	100% of federal
New Mexico	25% of annual state cap
New York	N/A
Utah	N/A
Vermont	$150,000

Source: Novogradac and Company LLP

Credit Period

The credit period varies widely from state to state. Like Oklahoma, the States of Arkansas, Connecticut, Missouri, New York and Utah provide their credits over a 10 year period. Colorado and Nebraska offer their credits for 6 years, while Hawaii, Massachusetts and Vermont offer theirs for 5 years and California for 4 years. Illinois' credit period is just 1 year. Georgia aligns its credit period with the federal program (currently 10 years),

while New Mexico has a 10 year credit period for multifamily projects and a 5 year period for single family projects.

Benchmarking Program Evaluations

Federal LIHTC Evaluations

Many evaluations of the federal programs exist with conflicting conclusions regarding the efficacy of LIHTC programming. For instance, in 2017 the **U.S. Government Accountability Office** (GAO) found that there has been little oversight, monitoring or analysis of LIHTC projects, making the incentive program difficult to evaluate.[30] The study recommended that the IRS (1) implement relevant IRS staff within working groups, (2) improve the LIHTC database's data quality, (3) clarify compliance guidelines and (4) designate oversight to HUD. The only recommendation implemented thus far was the first regarding IRS staff involvement.

In 2012, **HUD** conducted a study on LIHTC properties at year 15 of the project. This study largely concluded that the majority of these properties were still successfully functioning as affordable housing properties with very few undergoing recapitalization or converting to market rate housing (it should be noted that HUD's LIHTC requires IRS reporting only up until year 15).[31]

In 2010, the **Joint Center for Housing Studies of Harvard University** analyzed policy questions, current issues, and ongoing capital needs for the LIHTC program. First and foremost, the study found that "[t]he consensus among our industry informants is that the LIHTC program is a durable, politically resilient, and popular program that benefits significantly from its enabling legislation as part of the tax code, its wide geographic scope, and its state-level implementation."[32] While the LIHTC program is supported by the private sector, some evaluators "expressed misgivings" regarding the efficiency of the program when comparing the program to demand-side subsidies (voucher programs) and citing theoretical concerns surrounding possible "crowd out [of] unsubsidized production."[33] The study largely determined that the efficiency of the LIHTC program remains inconclusive.

Evaluation of Missouri's Low Income Housing Tax Credit

An evaluation of Missouri's LIHTC conducted by the State Auditor noted that inefficiencies result in a low return on the state's investment, since a small portion of each dollar of tax credit goes toward low income housing. For fiscal year 2016, the state authorized $167 million in state credits, but since the minimum price per credit dollar was $0.50, developers only receive approximately $83.5 million in equity to go towards housing projects. This significant inefficiency occurs generally because the credits are sold on secondary markets at deep discounts reflecting the federal tax liability related to the credits, and the time value of money as a result of the 10-year issuance period.

Ultimately, the Auditor found that the estimated return on investment was $0.12 for every $1.00 invested in the program and provided several options to improve the efficiency of the credit:

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[30] United States Government Accountability Office – Testimony Before the Committee on Finance, U.S. Senate: Low-Income Housing Tax Credit – Actions needed to Strengthen Oversight and Accountability (August 2017). Accessed electronically at https://www.gao.gov/assets/690/686345.pdf

[31] U.S. Department of Housing and Urban Development Office of Policy Development and Research – What Happens to Low-Income Housing Tax Credit Properties at Year 15 and Beyond? (August 2012). Accessed electronically at https://www.huduser.gov/portal//publications/pdf/what_happens_lihtc_v2.pdf

[32] Joint Center for Housing Studies of Harvard University – Long-Term Low Income Housing Tax Credit Policy Questions (November 2010). Accessed electronically at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/long-term_low_income_housing_tax_credit_policy_questions.pdf

[33] Ibid.

- Making the credits refundable
- Using direct state appropriations to fund projects
- Reducing the timeframes credits are issued over
- Using other agencies, political subdivisions, or other nonprofit organizations to sell the credits and grant proceeds to projects.

The report also noted that it is one of the most costly programs to the state but does not provide a sunset. As of June 30, 2016, the credit had a significant outstanding and obligated tax credit balance ($828 million and $476 million, respectively) and that attempts to reduce the impact of tax credits on the budget will not result in an immediate impact (because the vast majority of tax credit redemptions expected in the short term are for credits already issued or obligated in prior periods and therefore cannot be avoided).[34]

In December 2017, a bill was introduced in the Missouri legislature that provides a rolling sunset on 47 tax credits, including the State's Affordable Housing Tax Credit, requiring legislators to actively vote to extend them rather than allowing them to remain in code indefinitely. The bill divides the credits into three categories: benevolent, economic and all others. Benevolent credits would be considered every four years; economic credits every three years; and miscellaneous credits every two years. Considered a benevolent credit, the Affordable Housing Tax Credit program would be subject to sunset every four years. In February 2018, the bill was referred to the Ways and Means Committee.[35]

Societal and Other Benefits of Affordable Housing Programs

Supporters of low income housing programs often cite the societal benefits of the programs, such as improved education outcomes via reduced mobility of low-income families, improved health via reduced exposure to environmental hazards and the availability of resources to devote to health expenses and food. Still other supporters cite economic benefits resulting from affordable housing, such as increased regional competitiveness via lower local housing costs and increased employee retention, reduced demand for other government services such as homeless, health or other social programs and improved commuting behaviors when locating near transit options. While these benefits should be considered when determining the efficacy of these programs, they are outside the scope of this evaluation.

A 2016 assessment produced by the **Virginia Law Review** argues that not only are LIHTC properties addressing the need for affordable units for low income households, but they also provide many benefits at the community level that other federal housing programs (such as vouchers and Section 8 programming) do not. This study addresses the perception that the LIHTC only helps the "barely poor" and is a catalyst for gentrification by claiming that the program is providing housing to a larger percentage of the lowest-income households than regulations require and is redistributing housing options regionally to mitigate the creation of "ghettos." They claim that LIHTC programs are responsible for revitalizing communities, redistributing affordable housing options (resulting in deconcentrated poverty), and attracting private businesses and investors. The assessment praises the LIHTC program as one of the county's most successful public-private partnership initiatives.[36]

A 2017 **New Jersey Future** study on the state's LIHTC program generated similar positive findings. This evaluation found that the LIHTC program successfully deconcentrates poverty by creating affordable housing outside of neighborhoods already experiencing high concentrations of poverty and in areas with better job

[34] Office of Missouri State Auditor – Tax Credit Programs (June 2017). Accessed electronically at https://app.auditor.mo.gov/Repository/Press/2017051896073.pdf
[35] Tax Foundation – Missouri Bill Would Sunset 47 Tax Credits (December 13, 2017). Accessed electronically at https://taxfoundation.org/missouri-bill-sunset-47-tax-credits/
[36] Virginia Law Review – Changing the Face of Urban American: Assessing the Low Income Housing Tax Credit (2016). Accessed electronically at http://www.virginialawreview.org/volumes/content/changing-face-urban-america-assessing-low-income-housing-tax-credit

opportunities.[37] A 2018 study published by the **Terner Center for Housing Innovation at the University of California-Berkeley** found that LIHTCs improve housing affordability, stability and quality and promote economic mobility, but residents are constrained by conditions in contemporary labor markets – such as low wages, variable work hours and limited benefits. Placing housing in the "highest resourced" neighborhoods was found to be insufficient to address the structural inequalities in the labor market.[38]

In August 2018, the **Center on Budget and Policy Priorities** (CBPP) found that, despite some recent improvement, the LIHTC falls short of meeting its potential to help poor families move to low-poverty neighborhoods with strong schools and low crime. Recommendations to policymakers include strengthening state policies that encourage placement of LIHTC developments in high-opportunity neighborhoods and instituting measures to ensure that those developments are affordable and accessible to families with incomes around or below the poverty line.[39]

[37] New Jersey Future – Assessment of the New Jersey Low Income Housing Tax Credit Program (May 2017). Accessed electronically at http://www.njfuture.org/wp-content/uploads/2017/05/New-Jersey-Future-Assessment-of-the-NJLIHTC-program.pdf
[38] The Terner Center for Housing Innovation at UC Berkeley – The Links Between Affordable Housing and Economic Mobility: The Experiences of Residents Living in Low-Income Housing Tax Credit Properties (May 2018). Accessed electronically at http://ternercenter.berkeley.edu/uploads/Links_Between_Affordable_Housing_and_Economic_Mobility_.pdf
[39] Center on Budget and Policy Priorities – Low-Income Housing Tax Credit Could Do More to Expand Opportunity for Poor Families (August 28, 2018). Accessed electronically at https://www.cbpp.org/research/housing/low-income-housing-tax-credit-could-do-more-to-expand-opportunity-for-poor-families

Appendices

Appendix A: Comparable State Programs

Affordable Housing Tax Credit Program						
State	**Annual State Cap**	**Transaction Cap**	**Based on Federal LIHTC?**	**Credit Period (Compliance)**	**Recapture Treatment**	**Credit Description**
Oklahoma	$4.0 million	100 percent of the federal credit	Yes	10 years (15 years)	Same as federal	The credit is a dollar for dollar match of all federal credits allocated to a qualified development located in a county with a population of less than 150,000.
Arkansas	$6.5 million	20 percent of the federal award	Yes	10 years (15 years)	Same as federal	9 percent
California	N/A	30 percent of eligible basis for 9 percent credits 13 percent of eligible basis for 4 percent credits	Yes	4 years	Same as federal	9 percent and 4 percent
Colorado	$5.0 million excluding credits allocated in 2015 and 2016 made to a qualified development located in a county that is designated by the qualified allocation plan as having been impacted by a natural disaster.	30 percent of qualified basis	Yes	6 years (15 years) (All developments must comply with the rent and income requirements through a 15-year compliance period)	Same as federal	Other: HB-1465 extends the state LIHTC program through 2019 and authorizes CHFA to allocate $5.0 million in state LIHTC annually in 2017, 2018 and 2019. Without passage of HB-1465, the state LIHTC program would have sunset at the end of 2016.

Affordable Housing Tax Credit Program						
State	**Annual State Cap**	**Transaction Cap**	**Based on Federal LIHTC?**	**Credit Period (Compliance)**	**Recapture Treatment**	**Credit Description**
Connecticut	Up to $10.0 million, with $2.0 million set-aside for supportive housing and $1 million is set-aside for workforce housing as defined by CHFA.	$0.5 million per funding year	Yes	10 years (15 years)	Credit recipients must submit quarterly progress reports to CHFA. Housing programs that do not meet their development schedule and completion dates can forfeit funds contributed by business firms to CHFA and the HTCC credits will be returned to CHFA.	A nonprofit corporation can receive up to $0.5 million annually in state tax credits which can then be sold to state business firms in return for cash contributions to the nonprofit corporation's housing program. Eligible business firms may be able to claim a charitable deduction for their contribution.
Georgia	N/A	The annual state credit dollar amount will equal that of the federal credit.	Yes	Same as federal	Same as federal	The annual state credit dollar amount will equal that of the federal credit.
Hawaii	N/A	50 percent of the federal credit	Yes	Allocations before Jan. 1, 2017: 10 years (30 Years) Allocations after Dec. 31, 2016: 5 years (30 Years)	Same as federal	9 percent and 4 percent

Affordable Housing Tax Credit Program						
State	**Annual State Cap**	**Transaction Cap**	**Based on Federal LIHTC?**	**Credit Period (Compliance)**	**Recapture Treatment**	**Credit Description**
Illinois	N/A	50 percent of the donations	Yes	1 Year (1 Year)	Only in the case of fraud	The Illinois Affordable Housing Tax Credit (IAHTC) encourages private investment in affordable housing by providing donors of qualified donations with a one-time tax credit on their Illinois state income tax equal to 50 percent of the value of the donation. The donor can choose to transfer the credits to the development, which creates additional development financing through syndication of the credits. The credit was extended until Dec. 31, 2021.
Massachusetts	DHCD has authority to allocate up to $20.0 million each year in state housing credit through 2019, at which point the Department's annual housing credit authority will revert to $10.0 million.	While the Department may entertain some exceptions, sponsors should make every effort to limit their state credit requests as follows: $ 0.4 million for developments with 40 or fewer units $ 0.7 million for developments with 41 to 60 units $1.0 million for developments greater than 60 units	Yes	5 years (45 Years)	Same as federal	The amount of credit is allocated at the discretion of the Department of Housing and Economic Development. Sponsors of developments seeking state credit must meet one of the priority categories described in Section I of this QAP. The need to better manage development costs; The need to produce more units for extremely low-income (ELI) and homeless families and individuals; The need to produce more mixed-income housing, with units available to a broad range of households; The need to produce more housing opportunities for persons with disabilities; The need to continue promoting thoughtful and strategic efforts to affirmatively further fair housing in every community in the Commonwealth.

Affordable Housing Tax Credit Program						
State	**Annual State Cap**	**Transaction Cap**	**Based on Federal LIHTC?**	**Credit Period (Compliance)**	**Recapture Treatment**	**Credit Description**
Minnesota (Proposed)	$7.0 million	One-sixth the total federal LIHTC allowable under the 10-year federal period.	Not applicable	Not applicable	Not applicable	For Minnesota projects eligible for the federal LIHTC and not financially feasible without the credit. The agency must allocate 50 percent of the total amount to qualified projects in greater Minnesota.
Missouri	Developments cannot receive the federal allocation award so the maximum amount of 9 percent credits is the federal allocation, $14.3 million, $0.3 million in 2016. Bond developments are subject to a fiscal year cap total authorization of $6.0 million.	100 percent of the federal allocation Bond developments are subject to a $0.7 million cap in annual State LIHTCs	Yes	10 years	Same as federal; Compliance period is 10 years	Any development that is eligible for the federal credit is eligible for the state credit. The state awards both 9 percent and 4 percent credits.
Nebraska	Total state LIHTC allocations are limited to the amount of the federal LIHTC available; Federal LIHTC in Nebraska were approximately $4.3 million in 2016	The maximum amount of Nebraska affordable housing tax credits awarded to all qualified developments in any given allocation year shall be no more than 100 percent of the total amount of federal low-income housing tax credits awarded by the authority in the same allocation year.	Not applicable	6 Years (30 Years)	Not applicable	9 Percent/4 Percent

Affordable Housing Tax Credit Program						
State	**Annual State Cap**	**Transaction Cap**	**Based on Federal LIHTC?**	**Credit Period (Compliance)**	**Recapture Treatment**	**Credit Description**
New Mexico	N/A	25 percent of the annual state cap, unless there are too few developments requesting a reservation.	Yes	Minimum of five years for single family housing and 10 years for multifamily housing. The minimum can be up to 30 years based on the allocation per housing unit (similar to credit period).	Resale, refinance, or transfer of ownership within affordability period will trigger 100 percent recapture.	The credit is worth up to 50 percent of the value of donations for affordable housing developments approved by the New Mexico Mortgage Finance Authority (MFA). MFA awards New Mexico Affordable Housing Tax Credit reservations on a first-come first-serve basis.
New York	N/A	Not applicable	No	10 Years (30 Years)	Same as federal	SLIHC assisted units must serve households whose incomes are at or below 90 percent of the AMI (vs. the 60 percent standard of the federal program).
Utah	Determined by Housing Credit Agency	Not applicable	No	10 Years (50 Years)	Same as federal	The tax credit shall be in an amount equal to the greater of the amount of: the federal low-income housing tax credit to which the taxpayer is allowed during that year multiplied by the percentage specified in an allocation certificate issued by the Utah Housing Corporation; or the tax credit specified in the special low-income housing tax credit certificate that the housing sponsor issues to the taxpayer as provided in Subsection (2)(c).
Vermont	$0.4 million	$0.1 million	Yes	5 years Compliance Period (same as federal)	Same as federal	A taxpayer who makes an eligible cash contribution shall be entitled to claim against the taxpayer's individual income, corporate income, franchise tax or insurance premium tax a credit in an amount specified on the taxpayer's credit certificate.

Source: Novogradac and Company Affordable Housing Resource Center - State LIHTC Program Descriptions