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## HOUSING MATTERS

# Housing Tax Credit Bill Should Be on U.S. Senate's To-Do List

Addressing Bonding Scarcity Will Make a Difference

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SPECIAL TO BANKER & TRADESMAN



**Y**ou don't have to be a political pundit to know just how rare bipartisanship is in Washington, D.C. these days, but there is a sliver of hope in the form of the Tax Relief for American Families and Workers Act.

On Jan. 31st, the House passed the bill, sponsored by House Ways and Means Committee Chair Jason Smith (R-Missouri) and Senate Finance Committee Chair Ron Wyden (D-Oregon), by a 357-70 margin.

The Senate should follow suit and act quickly to approve it, because it could spark the largest increase in resources for affordable rental housing in nearly a quarter of a century and reduce project costs.

Perhaps the legislation's most important housing provision is one that would reduce the threshold to qualify for the 4 percent Low-Income Housing Tax Credit on projects financed with tax-exempt private activity bonds. Currently, a project must reach 50 percent financing to qualify; the bill would reduce that to 30 percent.

The Treasury Department determines the private activity bond volume cap for each state on a per capita basis. Reducing the bond allocation needed to qualify for tax credits would allow states to use their allocation to leverage more projects. And the credits are a proven tool for spurring private investment in affordable rental housing, having financed upwards of 3.8 million homes for low-income families and individuals since 1986.

Massachusetts is one of 19 states (plus the District of Columbia) in which demand for private activity bonds for housing is greater than its allocation. In addition to building and rehabilitating affordable housing, the state's Clean Energy and Climate Plan calls for dramatically reducing emissions by retrofitting existing units to improve energy efficiency, which further increases the already strong demand for tax-exempt bonds.

### Mass. Would Benefit Significantly

High demand for private activity bonds makes Massachusetts one of the states that would benefit most from the lower threshold. According to Novogradac, a national audit tax and consulting firm, the commonwealth would see more additional homes produced as a result of the legislation than all but 10 states.

"Reducing the 50 percent test to 30 percent

translates to a 40 percent increase in the volume cap you can leverage," said Robert Charrest, senior vice president for equity production at Boston Financial, one of the largest investors in affordable housing nationwide. "That's dramatic for states that are currently maximizing their volume cap thresholds."

**MassHousing estimates that the legislation would result 1,300 more affordable rental units annually.**

The bulk of the state's volume cap is dedicated to housing, with MassHousing and MassDevelopment both allocating tax-exempt bonds to qualifying projects. MassHousing estimates that the legislation would result in the creation of an additional 1,300 affordable rental units annually.

The bill would also increase the number of affordable rental units by reducing the backlog of projects. Under the 50 percent private activity bond threshold, many developers over-borrow to ensure they reach the threshold. But with

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more demand for low-income housing tax credits than the volume cap can currently support, worthy developments are forced to sit in limbo until the necessary bonding becomes available.

### Ways to Boost Funding

Those delays increase project costs. This legislation would reduce the amount of tax exempt debt required for affordable housing developers to access tax credits and get critical resources to them more quickly, thereby reducing costs and getting units on line sooner. And while projects would use more expensive conventional debt to replace the increment of reduced tax-exempt debt, developers can offset that cost by using capital subsidy dollars earlier

during development – another benefit of reducing the bond threshold.

Looking ahead, an additional reform that could further boost affordable housing creation would be to allocate private activity bond capacity more efficiently. Just as Massachusetts is one of 19 states in which demand for the bonds outstrips supply, there are another 19 states that have excess volume cap (demand is equal to supply in 12 states). Rather than letting that tax-exempt bonding capacity and the 4 percent tax credits that go along with it go unused, we should put it to work by reallocating the excess to oversubscribed states, perhaps on a per capita basis.

This is currently done with another pro-

gram, the 9 percent Low-Income Housing Tax Credit. There, the Treasury Department reallocates unused tax credits from states into a national pool.

But the first and most important step is for the Senate to pass the Tax Relief for American Families and Workers Act, and the sooner the better. We need to make sure our representatives in Washington demonstrate that addressing the nation's affordable housing crisis is so important that even Democrats and Republicans can agree on it. ◀

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