Addressing the Challenges of Affordable Housing & Homelessness:

The Housing Tax Credit

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Introduction

The United States and Washington state face an affordable housing and homelessness crisis. There are nearly four million extremely low-income Americans who lack access to an affordable housing option in this country, including 170,000 in Washington state. Half a million people are homeless in this country on any given night, including nearly 20,000 in Washington state, a 10% increase over the past two years.

The Low-Income Housing Tax Credit, which Senator Cantwell has championed, is an important tool that drives private sector investment in affordable housing for families and the homeless. However, as this report demonstrates, the demand for this program far outstrips the need. That is why Senator Cantwell, alongside a coalition of over 1,300 organizations, will be proposing a 50% increase in resources for this program, enough to build another 400,000 affordable homes over the next 10 years.

Affordable Housing Crisis

United States

Across the country, 11 million renter households, or one in four renters, spend more than half of their monthly income on rent. More than half of renters spend more than 30% of their income on rent. Nationwide, there are 11.2 million extremely low-income renters competing for only 7.3 million affordable units. The number of households spending a majority of their income on rent is only projected to grow.

Federal housing assistance, including programs like federal rental assistance, only meet a small portion of this need – currently serving only five million households. Three out of four households that are eligible for rental assistance do not receive it due to scarce resources. The Low-Income Housing Tax Credit (LIHTC) serves a critical role as the country's foremost tool to incent private sector investment in affordable housing. Every year, this tax credit finances 100,000 affordable rental units nationwide. Despite the nearly three million homes developed or preserved with the LIHTC since its creation in 1986, the number of affordable housing units has "stagnated over the past decade" according to the Harvard Joint Center on Housing Studies.

Washington State

According to the Washington State Department of Commerce's January 2015 Housing Needs Assessment, more than 36% of the state's 2.5 million households totaling 936,260 – pay more than one-third of their income on rent and more than 390,000 households pay more than half of their income on rent.

Clearly, affordability is a significant problem for lower-income households. Since 2000, incomes in the state have declined by 2.4% while median rents rose by 7.8% - from $884 to $951 in inflation

Housing Gap for Extremely Low-Income (ELI) families

- Across the country, there is a housing supply gap of 3.9 million ELI families who do not have access to affordable housing.
- In Washington state, that number is 169,000.

Affordable units available for every 100 ELI households in Washington:

- Statewide – 28 units
- King County – 15 units
- Snohomish County – 16 units
- Pierce County – 10 units
- Spokane County – 12 units

adjusted dollars. Washington state population growth over the next five years is expected to be driven largely by low-income households. The state's extremely- and very-low income populations are expected to grow by 16.59% and 15.17%, respectively, by 2019 (the highest growth rates among all income groups).

The median gross rent in Washington increased from $663 in 2000 to $951 in 2012, rising faster than the rate of inflation. In that period, units renting for less than $500 decreased from 24.8% of inventory to 9.8%. Meanwhile, units renting for $1,000 or more increased from 14.6% to 45.1%. While the Department projects the supply of available and affordable low-income housing to grow, at the current rate, it will take around 30 years for Washington state to close its affordable housing gap.

Homelessness in the U.S. and Washington State

Homeless Population

The Department of Housing and Urban Development's January 2015 point-in-time homelessness count identified 564,708 individuals experiencing homelessness across the United States. Approximately 31% of these individuals lacked any form of appropriate shelter or transitional housing. Of this group, around 36% were people in families with children (206,286 individuals).

Seattle Housing Affordability and Livability Agenda (HALA)

In July 2015, the Seattle HALA Committee provided its final recommendations to help guide policy-making related to housing and development in the city. The plan calls for the development of 50,000 units of housing, including 20,000 units of affordable housing, over the next decade.

15,000 of those units would be reserved for the same income groups that the Low-Income Housing Tax Credit is designed to target. An expansion of the LIHTC could be utilized by the City as it works to achieve its development goals.

Homelessness: Washington State

The January 2015 point-in-time homelessness count documented nearly 19,419 homeless individuals in Washington state. One-third, or 7,212 of those individuals, were unsheltered.

There is evidence the homeless population has been increasing in Washington state in recent years. Between 2013 and 2015, homelessness increased by 9.3%. This includes 1,136 additional homeless individuals—an increase of 10%. More than 4,500 homeless and unsheltered people were counted in Seattle and King County's 2016 one night count, a 19 percent increase over 2015. In Seattle/King County, there were over 10,000 homeless individuals in 2015, the third largest for a major city continuum of care in the country. Washington faces a significant challenge providing affordable and available housing for the 19,419 homeless individuals, including households with children, unaccompanied children, mentally ill individuals, and veterans.

Washington is one of only twelve states and the District of Columbia that has elevated rates of homelessness above the national average of 18.3 homeless people per 10,000 people. In Washington, the rate is 26.5 persons per 10,000. While there was a 2.3% decrease in homelessness across the United States from 2013 to 2014, in Washington state, homelessness actually rose by 3.8%. This translated into 682 additional homeless individuals in Washington than in the previous year. Between 2013 and 2014 in Washington state:

- Unsheltered homeless individuals increased by 16.8%, or by 849 persons, from 2013 to 2014 – against a 10% national decrease in unsheltered homeless;
- Family homelessness decreased 1.6%, falling short of the 4.9% national average decrease;
- Chronic homelessness increased 19.9% against a national decrease of 2.5%; and
- Veteran homelessness increased 8.7% against a national decrease of 10.5%.

The Low-Income Housing Tax Credit, as of January 2016, has financed the development **of 2,365 apartments reserved for people experiencing homelessness across Washington state**, with another 233 units in development.

Impact of the Low-Income Housing Tax Credit (LIHTC)

The Low-Income Housing Tax Credit **(LIHTC)** program was created 30 years ago by the Tax Reform Act of 1986, and is one of the federal government's primary tools for encouraging the development and rehabilitation of affordable rental housing. These non-refundable federal housing tax credits are awarded to developers of qualified rental projects via a competitive application process administered by state housing finance authorities.

The process of allocating, awarding, and claiming the LIHTC begins at the federal level with each state receiving an annual LIHTC allocation in accordance with federal law. LIHTCs are allocated to each state according to their population, with states receiving $2.35 per person in LIHTC allocation in 2016. The administration of the tax credit program is typically carried out by the state's **Housing Finance Agency (HFA)**. State housing agencies then allocate credits to developers of rental housing according to federally required, but state created, allocation plans. In 2013, these state HFAs typically received applications requesting two to three times their available Housing Credit allocations, demonstrating the robust demand and need for expanding this program.

Cantwell Secured Permanent 9% Floor to LIHTC

In 2015, Senator Cantwell's legislation making the 9% credit rate floor permanent was signed into law. This ended an era where fluctuating rates made financing for LIHTC projects uncertain.

Fluctuating rates for the Low-Income Housing Tax Credit have long created problems administering the credit. This, combined with low federal borrowing rates, translated into low annual LIHTC credit rates, reducing equity and discouraging investment. By securing a permanent 9% rate, Senator Cantwell's legislation fixed this problem.

LIHTC's Benefits: United States and Washington State

United States

Across the United States, the Low-Income Housing Tax Credit (LIHTC) has been responsible for financing the development of nearly **2.9 million rental homes**. Between 1986 and 2013, more than 13.3 million people have lived in homes that have been financed by the LIHTC.

Project Example: Nyer Urness House

The Nyer Urness House is an 80 unit housing complex finished in 2013 for chronically homeless men and women in northwest Seattle's Ballard neighborhood. Many of the furnished studio apartments are reserved for disabled and homeless veterans.

LIHTC equity equaled $12.7 million toward a total project cost of $18.4 million. In its first year, the Nyer Urness House created 98 jobs and contributed $6.3 million in community impact.

In addition, the LIHTC helps support approximately 70,000 jobs each year in Washington state. Most of these jobs are in the construction sector, with the remaining spread among manufacturing, transportation, and business service industries. In all, every year nationwide, the LIHTC helps generate $3.5 billion in federal, state, and local taxes, while also generating $9.1 billion in economic activity. Over 30 years, the credit has helped leverage over **$100 billion in private capital** used for affordable housing.

Approximately 60% of households that the LIHTC serves have a household income of less than $20,000, with the median household income set at $17,066. Nearly half (46%) of those served by the LIHTC have incomes 30% or less of the **median household income (MHI)**, or are considered **extremely-low income** households. Little more than one-third (35%) of households have incomes between 30% and 50% of MHI, or are considered **very-low income** households.

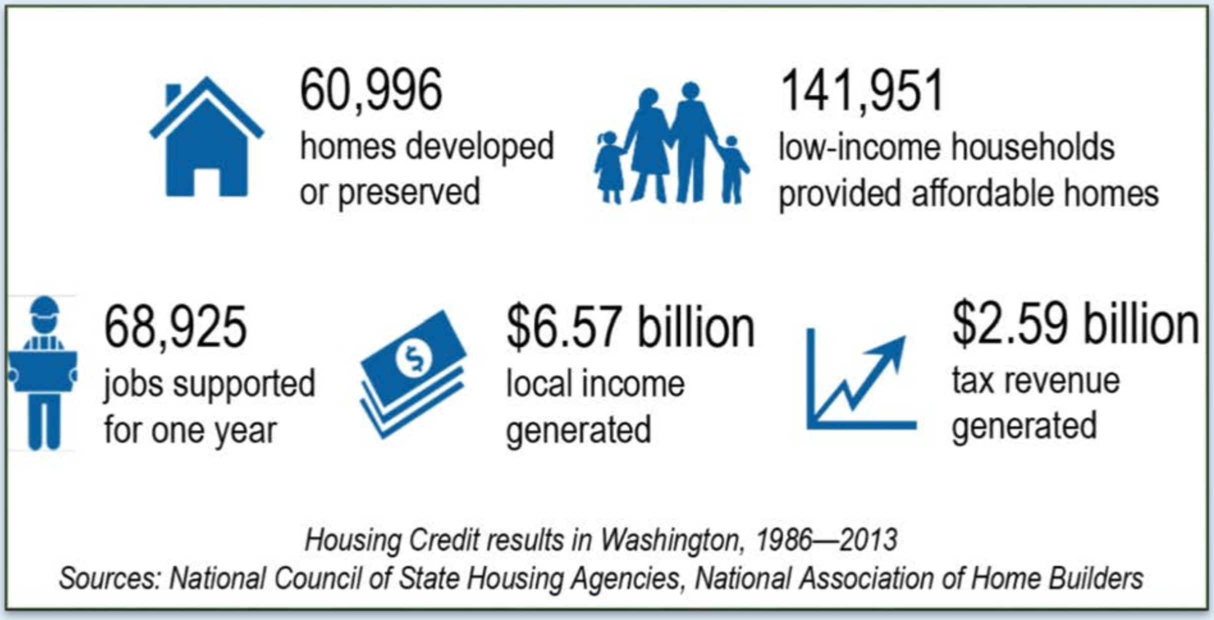
Washington State

Since its creation in 1986, the Low-Income Housing Tax Credit has helped develop more than 75,000 affordable housing units throughout Washington state, including 15,346 units for the elderly, 4,097 units for individuals with disabilities, 1,640 for farmworkers, and 2,365 units for the homeless.

In Focus: LIHTC in Washington State: 1986-2015

Region	TOTAL PROPERTIES	TOTAL UNITS	TOTAL EQUITY	Reserved Units:			
				Homeless	Elderly	Farmworker	Extremely-Low Income
Seattle	223	18,477	$1,176,223,080	1,287	2,581	-	2,527
Tacoma	54	3,988	$217,310,169	148	617	-	572
Spokane County	57	4,590	$224,419,340	163	1,198	-	574
Snohomish County	88	9,635	$351,770,069.60	56	1,869		247
WA state	1027	75,400	$4,235,481,391	2,365	15,346	1,610	7,010

The LIHTC is also an economic development engine in Washington state. Each year, the credit supports nearly 70,000 jobs, and in its history, the credit is responsible for over $6.5 billion in local income and $2.6 billion in tax revenue generation. Over $4.2 billion in private capital has been invested in affordable housing in Washington state thanks to the Low-Income Housing Tax Credit.



The Path Forward: Expanding and Reforming LIHTC

The Low-Income Housing Tax Credit (LIHTC) is the federal government's primary policy tool for leveraging private investment in affordable housing, helping finance the development of 100,000 affordable homes nationwide each year, and has leveraged over $100 billion in private capital since its creation. However, due to increased demand, in 2013, state housing finance agencies across the country received applications for three times the number of LIHTCs they had available to allocate, leaving many worthy affordable housing projects unfunded. Senator Cantwell is developing legislation to expand and improve the LIHTC, including the following provisions:

PROPOSAL: Expand the annual LIHTC allocation by 50 percent

Senator Cantwell will be proposing a 50 percent increase in the annual amount of 9 percent credits available to states, allowing the creation or preservation of an additional 400,000 affordable rental units over the next 10 years. This proposal has been endorsed in the Bipartisan Policy Center's Housing Commission report: "Housing America's Future," as well as by over 1300 groups through the A.C.T.I.O.N. Campaign.

In the past ten years, the 9 percent credit funded over 8,500 affordable housing units in Washington state, nearly half of which were reserved for the extremely low-income or homeless households.

Quick Facts

- This proposal would allow Washington state to develop about 35,215 new affordable housing units using the LIHTC over the next 10 years.
- This proposal would allow Seattle to develop a total of approximately 8,850 units using the LIHTC over the next 10 years, nearly halfway towards the city's Housing Affordability and Livability Agenda (HALA) goal.

PROPOSAL: Promote broader income mixing in LIHTC projects

The LIHTC encourages states to give preference to developments that set aside units affordable to the lowest-income populations, including the homeless, but these projects are the most difficult to make financially feasible, especially in high-cost markets like Seattle. Senator Cantwell will be proposing reforms to the LIHTC's income limitation formulas to promote greater income mixing, allowing developments to maintain financial feasibility, while providing a deeper level of affordability.

PROPOSAL: Allow states more flexibility in financing projects targeting homeless individuals or extremely low-income families

Under current law, certain areas and developments are eligible to receive up to a 30 percent basis boost (resulting in more housing credit equity) if the state housing credit allocating agency determines the boost is needed to make development financially feasible. Senator Cantwell will be proposing that state housing credit allocating agencies be allowed to provide up to a 50 percent basis boost for properties targeting extremely-low income or homeless families and individuals, allowing these projects to achieve greater financial feasibility and eliminate the need for debt financing.

Senator Cantwell invites you to join her in this ongoing effort to expand the LIHTC.
Visit www.cantwell.senate.gov for updates and for opportunities to get involved in the campaign.

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