MO's LIHTC Program: Suggested Key Points.

The federal government's old way of financing affordable housing was broken; Missouri has helped fill the gap for decades…until now.

LIHTCs are preferable to the old public housing system which suffered from tremendous waste and mismanagement, and which saw taxpayers spending money to tear down structures just 2-3 decades after they were built. Compared to that, a tax credit with private market oversight, as originally crafted and enacted by Ronald Reagan and Jack Kemp, is a very efficient alternative.

Missouri has long assisted seniors, veterans, low-income families and the disabled secure safe, quality affordable housing to remain productive and independent. For 25 years, we have achieved this policy goal via the state low-income housing tax credit. As the population ages, our veteran community grows, and the disabled face serious challenges, the need for affordable housing will continue to increase. Gov. Greitens' MHDC has now eliminated the state's LIHTC, which will leave tens of thousands of vulnerable Missouri seniors and veterans out in the cold.

The need for affordable housing is more acute than ever.

A recent study found that 1/4 of all renters spend over half their income on rent. Less than 20% of them receive aid, because resources are scarce – waitlists for rental assistance in Missouri are years long. Today, the St. Louis City, St. Louis County, and Kansas City Housing Authorities waitlists range from 4,000-15,000 people; lists in smaller counties often exceed 1,000. Nearly all of the state's waitlists are so full that they are closed to new applicants. Another study counted 16,000 homeless schoolchildren, excluding kids age 0-5. Research shows that homeless children are less likely to complete high school and more likely to cost the state throughout their lives.

The elimination of state credits would disproportionately harm rural Missouri.

State credits are absolutely to make projects work in rural Missouri. Big cities have municipal governments with resources that can often fill financing gaps. But in rural Missouri, affordable housing developers must fill the gap with a loan. Loans must be repaid with higher rent, which is more than rural markets can afford.

Also, many rural areas have stagnant economies; there is scant new construction in places like Dexter. LIHTC developments bring jobs and economic activity to areas in desperate need of it.

Missouri's program isn't unusually large – we just meet housing needs differently.

Our LIHTC program is larger than that of many states, but other states spend far more money to subsidize affordable housing using programs Missouri lacks. For instance, while Missouri spent $144 million on state LIHTCs last year, New York City alone spends $1 billion annually to subsidize rents, and requires developers to set aside 20% of all new units as affordable. During the past decade, California has spent an average of a half million dollars a year on state housing bonds.

And LIHTC spending is not, as opponents claim, out of control. LIHTC spending has grown by $144M since 1992. Since 1992, K-12 education spending has risen over $2B from $1.3 billion to $3.5B; Medicaid spending has increased similarly. Thus, the actual spending increase on education and Medicaid has been 15-20 times as large as that on affordable housing.

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A recent audit of the state LIHTC program contains significant errors; LIHTC is the most efficient way to inject capital into affordable housing development.

The audit suggests using state grants as a more efficient way to build affordable housing. But tax credits are more efficient as they're less taxable than grants. Grants or forgivable loans would cost the state up-front, creating a huge short term fiscal note.

Also, the state would incur 100% of the risk. Currently, the state incurs no risk b/c investors provide up-front money and additional capital if the project becomes distressed. Credits don't flow until units are leased according to stringent guidelines, and are recaptured if projects fail to comply. Since roughly 40% of approved projects are not built or fall out of compliance, the state would lose money - a risk now borne by investors who provide oversight, ensuring compliance to preserve their stake.

It's inaccurate to say that 42-55 cents (the price range of credits during past state audits; pricing is currently 58-59 cents) of each dollar goes into the project. This excludes 1) federal taxes; and 2) decreased value of credits in years 2-10 due to inflation (i.e., time value of money). That is, by the time investors receive their full credit stream 13-14 years after the award, inflation has eaten up 30-35 cents of the dollar. Thus, the fact that the credits sell for 58-59 cents is a sign of efficiency, not waste.

Put simply: if you asked a bank for $1000 and offered to pay back $100/yr for 10 years, starting in 3 years and ending in 13 years, would they accept? Of course not. After 13 years, assuming 5% interest, you'd have paid the bank about $1500 on a secured loan. That's the time value of money.

Viewed from a different perspective, investors paying 58-59 cents for a 10-year stream of credits that don't begin paying out until 3 years after purchase (once a development is built and fully leased) are making a pre-tax 8.6% return on an unsecured loan. Historically, an investor would fare much better with less hassle and worry investing in the S&P 500, or nearly as well with worry-free U.S. Treasuries.

LIHTC developments create cost savings elsewhere in the budget.

LIHTC developments are a hand up, not a handout. They are not free but do reduce rents by an average of $288 month for elderly and disabled people who would otherwise be unable to afford an apartment. Given local governments' cost providing emergency care for feeble seniors and disabled people in dilapidated homes, many expenses are never incurred, and lives are saved, when emergencies are spotted earlier in a large community with on-site support services.

Senior projects are an especially wise use of tax dollars because of Medicaid savings from reduced nursing home use. Over the past decade, LIHTCs have helped build 800+ new senior units annually. Of those, 43% of residents are detoured from nursing homes thanks to special services provided in LIHTC units. An average of 332 units annually utilize LIHTC vs. a Medicaid-funded nursing home unit. Annual nursing home costs run the state $29,871 per unit, while the annual LIHTC allocation per senior is $7,773, which multiplied by 332 units costs the state $2.5M. Thus, tax-credit senior housing saves the state $7.4M annually, and $74M over 10-years.

Homeless veterans are another key constituency LIHTC supports. Vets - who may suffer from PTSD and other issues - face challenges finding affordable housing. LIHTC helps groups like The Salvation Army to build affordable housing with on-site support, sparing government from delivering costly mental health and medical services. Non-profit organizations provide services at veteran-focused developments in St. Louis, Kansas City, Columbia, Mexico, and elsewhere across Missouri.

LIHTC developments create substantial economic activity.

See accompanying pie chart showing the wide distribution of economic benefits – and relatively small percentage going to developers. The state REMI model says LIHTC creates just 54 permanent jobs, which fails to explain an entire industry with thousands of jobs.