NCSHA

Washington Briefing

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About NCSHA

For more than 50 years, state housing finance agencies (HFAs) have played a central role in the nation's affordable housing system, delivering financing to make possible the purchase, development, and rehabilitation of affordable homes and rental apartments for low- and middle-income households.

The National Council of State Housing Agencies is a nonprofit, nonpartisan organization created to advance, through advocacy and education, the efforts of the nation's HFAs and their partners to provide affordable housing to those who need it.

NCSHA's vision: An affordably housed nation.

Learn more at www.ncsha.org.

Major Tax Victories in 2017 and 2018

2017 Tax Reform

- Preserved the Housing Credit
- Preserved tax-exempt Private Activity Bonds

2018 Omnibus Spending Legislation

- 12.5 percent cap increase for 2018 – 2021
- Permanent establishment of income averaging

And now the bad news…

- Lower corporate tax rate — resulting in lower pricing of Credits
- Chained CPI — resulting in smaller inflation adjustment for authority moving forward
- Base Erosion and Anti-Abuse Tax — potentially causing some investors to exit the market and sell current Housing Credit investments

The Affordable Housing Credit Improvement Act (S. 548/H.R. 1661)

Senator Maria Cantwell
D-Washington

Finance Committee
Chairman Orrin Hatch
R-Utah

Representative
Carlos Curbelo
R-Florida

The new guy

W&M Ranking Member
Richard Neal
D-Massachusetts

Increases Housing Credit Resources

- Provides a 50 percent increase in Credit authority phased in over 5 years and corresponding phased-in 50 percent increase in the small-state minimum (Senate bill only)
- Establishes a permanent minimum 4 percent Housing Credit rate for acquisition and bond-financed properties
- Establishes a state-determined 30 percent basis boost for bond-financed properties

Supports the Preservation of Existing Affordable Housing

- Provides flexibility around existing tenant income eligibility
- Replaces the right of first refusal with a purchase option
- Modifies the 10-year rule
- Allows states to include relocation expenses in Credit-eligible rehabilitation expenditures
- Gives states the authority to ensure that affordability restrictions endure in the case of illegitimate foreclosure

Facilitates Development for Hard-to-Reach Populations and in Challenging Markets

- Gives states the flexibility to provide a basis boost of up to 50 percent for units reserved for ELI households
- ✓ Permits income averaging
- Standardizes income eligibility for rural properties
- Encourages development of affordable housing in Native American communities
- Repeals the QCT population cap
- Raises the DDA population cap

Provides New Flexibility, Simplifies Program Requirements, Addresses Fair Housing Concerns

- Simplifies the Housing Credit student rule
- Gives states the flexibility to determine a reasonable replacement period after a casualty loss
- Prohibits states from requiring or providing local approval or local contributions as part of project selection
- Clarifies the preference for housing located in a QCT that contributes to a concerted community revitalization plan

EQUAL HOUSING OPPORTUNITY

Other Modifications

- Changes the program’s name to the Affordable Housing Tax Credit
- In certain circumstances, limits the rent charged on units to the maximum Housing Credit rent, even if a tenant is a Voucher holder and the FMR exceeds the Housing Credit rent
- Eliminates the basis reduction associated with certain energy efficiency tax Credits

Status of AHCIA

Strong bipartisan support

- ✓ S. 548 has 40 cosponsors (including Cantwell and Hatch): 28 Democrats, 10 Republicans, and 2 Independents, including 60 percent of the Finance Committee.
- ✓ H.R. 1661 has 163 cosponsors (including Curbelo and Neal): 76 Republicans and 87 Democrats, including over two-thirds of the Ways and Means Committee.
  - ✓ Representative Young is a cosponsor of H.R. 1661.

Next opportunity likely to be an end-of-the-year tax bill

- ✓ Bill sponsors are optimistic.
- ✓ Continued appetite from cosponsors to get more done this year.
- ✓ We must continue to build momentum.
- ✓ We do not expect “Tax Reform 2.0” to be a likely vehicle for AHCIA.

What If AHCIA Does Not Pass in 2018?

The environment for enactment in the 116th Congress

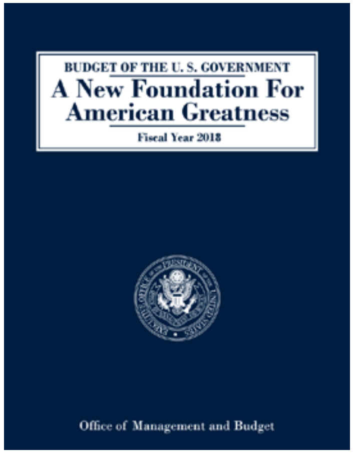
- ✓ Party control of either chamber could flip.
- ✓ Senator Hatch is retiring.
  - ✓ There will be a new chairman of the Finance Committee, **maybe Senator Grassley.**
  - ✓ We will need to find a new Republican lead sponsor for the Senate bill.
- ✓ Our lead House Republican, Representative Curbelo, is in a tight election.
- ✓ Potential changes/additions to the legislation.
- ✓ The cosponsorship effort must start from scratch.

FY 2018 Appropriations

- $1.362B for HOME Investment Partnerships program: 43 percent increase over FY 2017; highest funding in 7 years!
- $11.15B for project-based rental assistance, fully funding all contracts
- $22B for Housing Choice Vouchers: $505 million for Section 811 Mainstream Vouchers, $385 million over FY 2017
- $3.3B for Community Development Block Grants (CDBG), up from $3B
- $678 million for the Section 202 Housing for the Elderly program, including $105 million for new capital advance and project rental assistance (PRA) awards
- $230 million for the Section 811 Housing for People with Disabilities program, including $82.6 million for capital advance and PRA awards
- Increases the number of public housing units that can convert under the Rental Assistance Demonstration (RAD) program from 185,000 to 225,000 and extends the program to 2020; allows Section 202 PRA properties to convert under RAD

FY 2019 Administration Budget Proposal and Rent Reform Package

- Eliminates HOME, CDBG, Trust Fund, Rural Rental Housing, and other programs
- Cuts rental assistance funding
- Terminates the FFB Risk-Sharing Program
- Eliminates the RAD unit cap
- Raises tenant rent contribution from 30 percent of adjusted to 35 percent of gross monthly income
- Establishes a minimum rent of $150 for persons younger than 65 not considered disabled; $50 for elderly and disabled
- Ends utility allowance reimbursements, childcare and medical deductions



FY 2019 HUD Appropriations

Maintains most FY 2018 funding levels:

- $1.362B for HOME Investment Partnerships program in Senate-passed bill; $1.2B in House Committee bill
- $11.7B for project-based rental assistance (PBRA), fully funding all contracts, in both Senate-passed and House Committee bills
- $22.7B for Housing Choice Vouchers in Senate-passed bill; $22.4B in House Committee bill
- $2.62B for Homeless Assistance Grants in Senate-passed bill; $2.54B in House Committee bill
- $3.3B for Community Development Block Grants, up from $3B in both Senate-passed and House Committee bills

FY 2019 USDA Appropriations

Maintains most FY 2018 funding levels:

- $24B for Section 502 Single Family guaranteed loan authority in both Senate-passed and House Committee bills
- $1.1B for the Section 502 Single Family direct loan authority in Senate-passed and $1B in House Committee bills
- $40M for Section 515 rural rental housing direct loan authority in both Senate-passed and House Committee bills
- $1.3B for Section 521 Rental Assistance, enough to renew all existing rental assistance contracts according to the Appropriations Committees, in both Senate-passed and House Committee bills

Housing Trust Fund

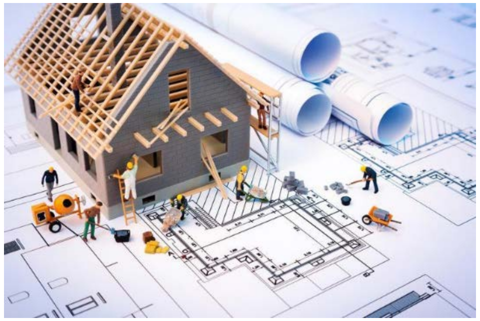
HUD recently announced 2018 state allocations for distribution.

- Iowa receives $3 million (same as 2016 and 2017).

2019 Allocation plans were due August 16, 2018.

Important Reminders from HUD:

- Grantees must meet two-year commitment deadlines:
  Iowa has already met its two-year commitment deadline for 2016 HTF funds. Those funds must be dispersed no later than May 8, 2022.
- Grantees must mark finished projects as complete in IDIS.



Upcoming Changes to Key Regulations

- Community Reinvestment Act (CRA) — Office of the Comptroller of the Currency issued an Advance Notice of Proposed Rulemaking (ANPR) requesting feedback on how to modify CRA.
- Affirmatively Furthering Fair Housing (AFFH) — HUD issued an ANPR requesting feedback on how to modify 2015 AFFH regulations (due October 15).
- Disparate Impact Final Rule — HUD issued an ANPR requesting feedback on how to modify the 2013 discriminatory effects standard (Disparate Impact Rule). Comments were due last month.

Advocacy in Iowa: What Can You Do?

- ✓ Educate your members of Congress about the Housing Credit and the other Federal resources on which you depend.
- ✓ Bring them on site visits; invite them to ribbon cuttings and ground breakings.
- ✓ Urge them to cosponsor AHCIA (S. 548/H.R. 1661) — Use materials from www.rentalhousingaction.org.
- ✓ Ask them to weigh in with their leaders in support of advancing AHCIA this year.
- ✓ Urge them to support HUD and Rural Housing Priorities in appropriations bills.
- ✓ Connect with your members on the issues over which they have jurisdiction:
  - ✓ Senator Grassley — Finance Committee
  - ✓ Representative Young — Appropriations

GAO Reports on the Credit

Senator Grassley, in his capacity as Chairman of the Judiciary Committee, asked GAO to conduct a review of the Housing Credit program.

- ✓ Report on federal oversight — July 2015
- ✓ Report on state administration — May 2016
- ✓ Abridged report on the role of syndicators — February 2017
- ✓ Report on development costs — will be released *any day now…*

NCSHA-Commissioned Report on Housing Credit Development Costs

NCSHA engaged Abt Associates (Abt) to analyze development costs of affordable apartment projects financed with the Low Income Housing Tax Credit (Housing Credit).

Abt analyzed development cost data for more than 2,500 projects containing more than 160,000 housing units developed through the Housing Credit and placed into service between 2011 and 2016. The sample includes approximately 47 percent of 9 percent deals and 20 percent of 4 percent deals placed in service over this time period.

The sample spans the country, including at least two projects in every state and more than 25 projects in each of 35 states.

The data was provided by 14 syndicators, including 8 of the largest national syndicators active during the study period and 6 regional equity funds.

Background and Methodology: Study Focus

How have Housing Credit development costs varied over time?

How do Housing Credit development costs vary by project characteristics and geography?

What are the principal observable factors that impact the costs of developing Housing Credit properties?

Background and Methodology: Methodological Approach

Abt developed descriptive tables that show the relationship of particular factors to per-unit costs.

Abt also constructed regression models that look at multiple factors affecting costs at the same time.

Abt inflated all costs to 2016 dollars using a construction index from RS Means.

Factors analyzed included:

- Year placed into service
- Location (region, metro/rural, poverty rate, DDA, QCT, state construction wage)
- Project (9 Percent vs. 4 Percent, NC vs. AR, total units, # bedrooms, target population, developer type, # of financing sources)

Key Finding: Housing Credit TDC Medians and Means

The Abt analysis focuses on per-unit total development cost (TDC) which reflects the total development cost for a project **— including the cost of land —** divided by the number of units in the project.

Abt finds that the median per-unit TDC over the six-year time period was $164,757, adjusted for construction cost inflation.

Abt finds that the mean per-unit TDC over the six-year time period was $182,498, adjusted for construction cost inflation.

Methodological note:

- Data for these and other descriptive statistics are weighted at the unit level.
- In the regression, data are weighted at the project level.

Key Finding: Location Is a Major Driver of Development Cost

Abt finds that Housing Credit total development costs (TDCs) were higher for projects developed in principal cities of metropolitan areas, and in HUD-designated difficult development areas (DDAs) and qualified census tracts (QCTs).

Costs were also higher for projects developed in New England, the Mid-Atlantic, and the Pacific regions, as compared with other regions.

These relationships held true even when Abt analyzed total development costs without land, suggesting the higher cost of land is not the sole factor driving this finding.

Nor is the finding due solely to differences in construction-cost wages, since Abt controlled for state-level differences in these wages, which also had a significant effect on costs.

Key Finding: Project Size, Type, and Financing Also Drive Costs

Smaller projects were more expensive per unit to build than larger projects, likely due to the economies of scale of developing larger projects.

Projects where the unit size averaged more than 2.5 bedrooms were also more expensive on a per-unit basis.

New construction projects were substantially more expensive than projects developed by acquiring and rehabilitating existing structures.

Projects with multiple financing sources were more expensive on a per-unit basis, which could be due to the challenges associated with assembling multiple financing sources or could be due to the need to find multiple financing sources to pay for higher-cost projects.

Market Context: Cost Comparison

According to Dodge Data and Analytics, the average TDC per unit for multifamily new construction **— not including soft costs or land —** was $151,000 (2011 to 2016).

Adjusting the Dodge data for common estimates of soft costs and land yields a mean TDC of between $196,000 and $204,000.

Abt's findings indicate the mean TDC for new construction of a Housing Credit unit was $209,000 over that time period. This includes costs that do not generally apply to market rate properties, such as reserves and developer fees.

Thus, Housing Credit development costs are generally consistent with overall apartment development costs

Source: Historical Starts Information: Multifamily Starts US Summary, Annual Totals, Dodge Data and Analytics, August 2018.

Market Context: Cost Growth Comparison

Abt finds that the costs of developing Housing Credit developments generally grew in line with the average growth of all construction costs nationwide between 2011 and 2016, which was about eight percent over that period according to the RS Means Historical Cost Index.

A 2017 study by Fannie Mae found that overall apartment costs have risen **between 10 percent and 30 percent**, depending on the number of stories, over the past five years.

Source: Fannie Mae Multifamily Market Commentary (March 2017)

Market Context: Tradeoffs

The Abt findings illustrate the important tradeoffs involved in developing affordable housing across the United States:

- While it may be more expensive to build in high-cost areas, housing needs exist in high-cost as well as low-cost communities.
- While rehabilitating an existing building may be less expensive than new construction, suitable properties for redevelopment are not available everywhere — and new construction is a cost-effective approach in some situations.
- Smaller units cost less to build but are not appropriate for all households, and smaller projects cost more to build per-unit, but larger projects are not desirable in all locations.

Median Per-Unit TDC by Year (2011 – 2016)

	Unadjusted		Adjusted for Construction Cost Inflation	
Year	Unit-Weighted	Project-Weighted	Unit-Weighted	Project-Weighted
2016	$166,817.26	$176,070.14	$166,817.26	$176,070.14
2015	$162,680.09	$171,743.22	$163,662.07	$172,779.90
2014	$175,489.63	$182,593.25	$177,621.09	$184,810.99
2013	$159,182.30	$168,663.48	$164,105.47	$173,879.88
2012	$143,669.99	$161,737.27	$153,166.30	$172,427.79
2011	$147,882.24	$165,015.31	$160,392.88	$178,975.40
All Years	$159,373.94	$171,102.39	$164,757.09	$177,152.95

Note: "Adjusted for Construction Cost Inflation" columns reflect 2016 dollars as adjusted by the RS Means Historical Cost Index.

Per-Unit TDC by Year (2011 – 2016)

Year	Number of Projects	Number of Units	25th Percentile	50th Percentile	75th Percentile	Mean
2016	399	24,639	$120,906	$166,817	$237,721	$186,325
2015	424	27,733	$121,520	$163,662	$221,236	$177,784
2014	411	26,210	$133,050	$177,621	$233,066	$195,875
2013	467	29,399	$120,473	$164,105	$224,244	$181,162
2012	467	29,888	$115,839	$153,166	$218,719	$175,852
2011	379	24,578	$115,893	$160,393	$214,031	$179,393
All Years	2,547	162,447	$121,254	$164,757	$224,903	$182,498

Note: All dollars adjusted to constant 2016 dollars based on the RS Means Historical Cost Index.

Per-Unit TDC by Development Type

	Number of Projects	Number of Units	25th Percentile	50th Percentile	75th Percentile	Mean
New Construction	1,425	81,595	$146,246	$190,804	$249,236	$209,095
Acquisition-Rehab	1,077	77,861	$98,045	$131,074	$183,192	$153,394
All Projects[1]	2,547	162,447	$121,254	$164,757	$224,903	$182,498

[1]Total includes 45 projects that are identified as a mix of both development types.
All dollars adjusted to constant 2016 dollars based on the RS Means Historical Cost Index.

Relationship of Location Characteristics to Per-Unit TDC

Factor	Description of Relationship to Per-Unit TDC	Statistical Significance
Region	Costs varied strongly by region, even when we analyzed per-unit TDC without land costs. The highest-cost regions were the New England, Mid-Atlantic, and Pacific regions. The lowest-cost regions were in the South.	Highest-cost regions were highly significantly different from mid-cost regions.
Project location type	Costs varied by type of area. Projects developed in the principal city of metropolitan areas had the highest costs, followed by metropolitan area projects developed outside of principal cities, followed by projects in non-metro areas.	Highly significant
Difficult-to-develop area	Projects located in DDAs had higher per-unit costs.	Highly significant
Qualified census tract	Projects located in QCTs had higher per-unit costs.	Highly significant
Construction wages	Projects located in states with higher construction wages had higher per-unit costs.	Highly significant
Poverty rate	We found different results in different models, suggesting the relationship between poverty rate and per-unit TDC is not robust.	Mixed

Note: Mixed indicates we found significant relationships for some categories, but not all, included in the regression model, or that results differed in different regression models. Highly significant indicates a significance level of $p < 0.001$. Significant indicates a significance level of $p < .10$.

Relationship of Project Characteristics to Per-Unit TDC

Factor	Description of Relationship to Per-Unit TDC	Statistical Significance
Development type	New construction projects had higher costs than acquisition-rehab projects.	Highly significant
Total units	Projects with more units had lower per-unit costs.	Highly significant
Tax credit type	Projects developed with 9 Percent Credits had higher per-unit costs than 4 Percent Credit projects.	Significant
Financing sources	Costs increased as financing sources increased.	Significant
Average bedrooms	While results differed a bit in different models, in general, we found projects with a higher average bedroom size had higher per-unit costs.	Significant
Target population	Our main model finds that projects for the elderly had lower per-unit costs than family projects and that special needs projects had higher per-unit costs than family projects. However, these effects did not persist in two of our alternative models.	Mixed
Developer type	In our main model, we found that projects developed by non-profit developers had higher per-unit costs than projects developed by for-profit developers. However, we did not find this result in two of our alternative models.	Mixed

Note: Mixed indicates we found significant relationships for some categories, but not all, included in the regression model, or that results differed in different regression models. Highly significant indicates a significance level of $p < 0.001$. Significant indicates a significance level of $p < .10$.

For More Information

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