Issue Brief: Virginia Low Income Housing Tax Credit Program

CHACE
Campaign for Housing and Civic Engagement

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Developing a Virginia Companion Credit to the Federal Low Income HousingTax Credit (LIHTC)

The Low Income Housing Tax Credit is the largest, longest standing federal program that is focused on the creation and preservation of affordable rental housing.

What Is the Low Income Housing Tax Credit (LIHTC)?

The LIHTC has been the primary funding program for affordable rental housing in the US since it was launched in 1986. The program supports the development of new and rehabilitated affordable rental housing through two mechanisms. The "9%" credit provides a deeper subsidy and is administered by the Virginia Housing Development Authority (VHDA) through an annual competition where the demand for credits usually far exceeds the supply available. The LIHTC is also available in conjunction with tax exempt bonds that are issued by housing authorities (including VHDA). These "4%" credits provide a shallower subsidy and may not work in all markets across the state without additional subsidy. the change in the federal tax code, combined with rising construction costs, have created major funding gaps that have a negative impact on project feasibility and delay project closings.

Benefits of the Low Income Housing Tax Credit and Gaps Pointing to a Need for a Companion Credit to the Federal Low Income Housing Tax Credit

The need for affordable rental housing across the state is currently not being fully met by the LIHTC. Further, Novogradac and Co. estimate that the changes to the tax law enacted in 2017 will reduce national production levels of affordable rental housing by up to 235,000 homes per year.

The LIHTC program serves households at 60% of area median income with rents that are affordable. Changes to the program last year allow for greater income mixing and will now allow households with incomes up to 80% of median if those are balanced with households at much lower levels.

Economic Impact

The LIHTC program has had a profound impact in the State over the past 30 years. Since 1996, over **88,000 affordable apartment homes** have been constructed or rehabilitated. The total development cost of this housing has been nearly $16 billion. The economic impact of this program in Virginia is described in the chart below, one of which is that this housing contributes over **$1 billion every year** to local economies across the state.

Economic Impact of New Construction and Rehabilitated Units*			
Short Term		*Long Term*	
Estimated Job Creation	**267,135**	**Estimated Jobs Supported**	**11,245**
Estimated Gross Fiscal Revenues	**$394,171,495**	**Estimated Gross Fiscal Revenues****	**$340,388,819**
Estimated Local Economic Growth	**$16,931,915,450**	**Estimated Local Economic Growth**	**$1,101,998,744**

Calculations made using the Residential Construction Economic Impact Calculators in Housing Virginia's Sourcebook (http://www.housingvirginia.org/sourcebook/)
*Estimates of economic impact are based on new construction and acquisition rehab cost, local median rents, local median home values, local tax rates, and RIMS II input-output multipliers. Estimated Fiscal Revenues are based on fees and taxes in the city of Fredericksburg. Job Creation and Local Economic Growth are regional estimates.
** Estimated Fiscal Revenues in the long term is an estimation of annual real property taxes (real estate taxes). Therefore, the long term fiscal revenue shown above is an estimate of taxes to be collected on the development in a single year at 2012 local tax rate.

What You Can Do in The General Assembly

Support the Creation of a Virginia Housing Tax Credit

CHACE is supporting the adoption of a Virginia housing credit that would be a companion to the federal credit. This would allow the federal credit to close funding gaps and create additional affordable apartments through expanded resources. The state credit would also add equity to difficult to develop projects, smaller projects and rural projects that often need additional assistance to achieve feasibility. A state credit could also contribute to deeper affordability for some units in a tax credit housing development.

There are currently 14 states that offer their own housing credits as supplements to the federal program and one state (Minnesota) with a proposed program. These state programs are designed in a variety of ways but frequently align with the federal credit while also emphasizing particular state priorities.

It is important that the state credit be designed in such a way that it can be easily taken by investors in the project and used against their state tax liability, including the ability of the credit to be bifurcated from the federal and specifically allocated to a state credit investor, similar to the Virginia historic tax credit. This was a critical flaw of an earlier, short-lived Virginia state credit program.