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The Honorable Orrin Hatch
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The Honorable Ron Wyden
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The Honorable Dean Heller
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The Honorable Michael Bennet
261 Russell Senate Office Building
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The Honorable Daniel Coats
493 Russell Senate Office Building
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The Honorable Maria Cantwell
511 Hart Senate Office Building
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The Honorable Tim Scott
520 Hart Senate Office Building
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The Honorable Bill Nelson
716 Hart Senate Office Building
Washington, DC 20510

April 15, 2015

Dear Members of the Senate Finance Committee Community Development and Infrastructure Tax Reform Working Group,

Thank you for your thoughtful and transparent consideration of how to improve our nation's tax code, and for the opportunity to provide our recommendations on the topic of supporting affordable housing and community development through tax reform.

Enterprise works with partners nationwide to build opportunity. We create and advocate for affordable homes in thriving communities linked to jobs, good schools, transit and health care. We lend funds, finance development and manage and build affordable housing, while shaping new strategies, solutions and policy. Over more than 30 years, Enterprise has created nearly 320,000 homes, invested \$16 billion and touched millions of lives. Enterprise has set a goal to end housing insecurity in the U.S. within a generation. That means no more homelessness and no more families paying more than half of their income on housing. As a down payment toward that



goal, by 2020 Enterprise will help provide opportunity to one million low-income families through quality affordable housing.

Drawing on our over three decades of affordable housing and community development experience, we urge the Community Development and Infrastructure Working Group to:

- Preserve, strengthen and expand the Low-Income Housing Tax Credit (Housing Credit),
- Strengthen and make permanent the New Markets Tax Credit (NMTC), and
- Provide tax relief for communities impacted by natural disasters that includes increased allocations of the Housing Credit and NMTC.

Low-Income Housing Tax Credit

Enterprise was influential in creating the Housing Credit, and has since raised more than \$10 billion in Housing Credit equity to finance over 125,000 affordable rental homes around the country. Enterprise is also one of the co-chairs of the “A Call to Invest in Our Neighborhoods (ACTION) Campaign” – a broad grassroots coalition of nearly 900 national, state and local organizations advocating on behalf of the Housing Credit.

The Housing Credit is responsible for nearly all affordable housing production in the United States. Since it was established in 1986, it has created or preserved over 2.7 million affordable homes by leveraging over \$100 billion in private capital. Roughly 40 percent of the homes were financed in conjunction with multifamily private activity housing bonds (Housing Bonds), a tool that has been essential in the Housing Credit’s ability to preserve over 1 million affordable apartments.

In addition to providing much-needed affordable housing, Housing Credit stimulates local economies. In a typical year, the Housing Credit supports nearly 96,000 jobs, most of which are in the small business sector, and adds approximately \$3.5 billion in taxes and other revenues to local economies.

Though the Housing Credit finances nearly 100,000 affordable homes for low-income households each year, the unmet need for affordable rental housing continues to far outstrip the available resources. An unprecedented 11 million low-income renter households – more than one in four renters in the United States – spend more than half of their monthly income on rent, meaning they have to make difficult trade-offs simply to keep a roof over their heads. The crisis is even worse for extremely low-income renters: in 2012, there were only 3.3 million housing units that were both available and affordable to 11.5 million extremely low-income households, leaving an astonishing unmet need of 8.2 million affordable homes. Over the coming years the



affordable housing supply gap is expected to worsen as more renter households enter the market, and more affordable housing units are lost to price increases or obsolescence.

The Housing Credit is essentially the only way to increase the supply of affordable rental housing to meet our nation's vast and growing need. For this reason, Enterprise urges Congress to preserve, expand and strengthen the Housing Credit through the following proposals:

- *Preserve Housing Credit and Housing Bond Resources*

It is critical to the future of affordable housing in the United States that Congress preserve the Housing Credit in tax reform. Without the Housing Credit, there would be virtually no source of capital to produce new affordable housing and no incentive for the private sector to provide it. According to Harvard University's Joint Center for Housing Studies, in order to develop new apartments affordable to renter households working full-time and earning the minimum wage without the Housing Credit, construction costs would have to be reduced by 72 percent of the current construction cost average.

In addition to preserving the Housing Credit, it is essential that Congress preserve the tax exemption on Housing Bonds. Without the financing that these tax-exempt bonds provide, the Housing Credit's annual production potential would be cut almost in half.

- *Expand Housing Credit Resources*

Enterprise calls on Congress to increase the current Housing Credit allocation to keep up with the growing demand for new affordable rental housing and to preserve at-risk affordable homes. Already, many viable developments that would serve low-income families in need are turned down each year because of the scarcity of tax credits, not because of applicants' qualifications or community needs. In 2012, for example, developers requested well over twice the available Housing Credit authority. There is already bipartisan support for an expansion of the Housing Credit. Recognizing the growing need for affordable rental housing, the Bipartisan Policy Center's Housing Commission in 2013 proposed increasing Housing Credit resources by 50 percent over current funding levels. The commission estimated that such an increase would support the preservation and construction of 350,000 to 400,000 new affordable rental homes over the next decade.



- *Enact Permanent Minimum Housing Credit Rates*

Housing Credit rates determine how much Housing Credit equity is available for any given property. When the Housing Credit was created, Congress set the credit rates at 9 percent for new construction and substantial rehabilitation, and at 4 percent for the acquisition of affordable housing. Since then, the rates have fluctuated according to a formula related to federal borrowing rates, known as the “floating rate.” With interest rates at historic lows, Housing Credit rates are now so low (roughly 7.5 and 3.2 percent, respectively) that there is 15 to 20 percent less Housing Credit equity available for any given affordable housing development. This leads developers to either rely more heavily on other affordable housing gap financing sources, or to target units towards residents at the higher end of the eligible income spectrum who can pay higher rents. The first option is becoming more difficult given the growing scarcity of these financing sources, and the second is contrary to the intent of the program.

Recognizing the problems associated with the floating rate, Congress enacted a minimum 9 percent credit rate in 2008, which was extended numerous times – most recently in the Tax Increase Prevention Act of 2014. However, this provision has now expired, and further action is needed in order to permanently extend the 9 percent minimum credit rate, as well as to establish a minimum 4 percent credit rate for acquisition of affordable housing and for Housing Credit developments financed with Housing Bonds.

- *Permit “Income Averaging” in Housing Credit Properties*

In many high-cost markets, it is nearly impossible to provide housing that is affordable to extremely low-income families without significant operating subsidies beyond the Housing Credit. At the same time, many low-income families earning between 60 and 80 percent of AMI are not eligible for Housing Credit apartments, yet have very limited affordable housing options in high-cost areas.

We recommend providing additional flexibility to states to achieve a more diverse mix of incomes in Housing Credit properties. Rather than maintain a single across-the-board income limit of 60 percent of AMI, developments could be targeted such that some apartments are available to households earning up to 80 percent AMI so long as a certain percentage of the units in the property are affordable to extremely low-income families. The overall average income limit would still be required to remain at or below 60 percent of AMI.

This flexibility would allow states to serve more extremely low-income tenants paying lower rents, since the higher rents paid by the higher-income tenants would help maintain the financial



feasibility of the development. Income averaging could also help make Housing Credit projects more viable in rural areas by increasing the number of families that are eligible to live in these properties.

New Markets Tax Credit

Enterprise has placed more than \$700 million of NMTC equity in 62 commercial and mixed-use developments in distressed urban centers and rural communities in 22 states and Washington, D.C. Enterprise's NMTC projects have included rental and for-sale housing, offices, retail, community centers, shelters, health care centers and schools. In each case, our allocation has helped facilitate the completion of a vital local project that otherwise would not have moved forward. Enterprise is also a board member of the New Markets Tax Credit Coalition, which is made up of over 150 members working to extend and improve the NMTC.

The NMTC provides incentives for businesses and organizations to make investments that stimulate economic growth in distressed urban, suburban and rural neighborhoods. Between 2003 and 2012, NMTC investments directly created over 750,000 jobs and leveraged over \$60 billion in capital investment in credit-starved businesses in communities with high poverty and unemployment rates.

By law, NMTC investments are required to be made in areas where the poverty rates is at least 20 percent or where the median income of the community is at or below 80 percent of the broader area median income. In practice, more than 75 percent of all NMTC investments are made in communities with severe economic distress – communities with unemployment rates more than 1.5 times the national average, poverty rates of 30 percent or more, or median incomes at or below 60 percent of the area median. In these credit-starved communities, the NMTC makes investments possible that otherwise would not have taken place.

The NMTC is a highly efficient use of federal resources. According to the U.S. Department of the Treasury, every \$1 in investment from the NMTC program leverages approximately \$8 of private capital. Its ability to leverage is so great that NMTC-financed businesses and jobs actually generate more federal tax revenue than the NMTC costs.

Given its proven success in leveraging private investment to grow local economies, create jobs and transform neighborhoods, the NMTC has been reauthorized numerous times on a bipartisan basis since its initial temporary authorization in the Community Renewal Tax Relief Act of 2000. However, the program is now expired.



Enterprise urges the Community Development and Infrastructure Tax Reform Working Group to make the following improvements to the NMTC program in the context of tax reform:

- Make the NMTC a permanent part of the U.S. tax code,
- Increase the annual NMTC allocation,
- Adjust the annual NMTC allocation for inflation, and
- Allow the NMTC to be taken against the alternative minimum tax (AMT), a feature already available to the Housing Credit and the Historic Rehabilitation Tax Credit.

These changes would provide stability and certainty in the program, leading to increased equity pricing, greater program efficiency and greater benefits to low-income communities throughout the country. Legislation to strengthen and permanently extend the NMTC has already been introduced in both chambers of Congress in the 114th Congress, with strong bipartisan support.

Disaster Tax Relief

Drawing on our experience helping partners rebuild nearly 10,000 Gulf Coast homes in the wake of Hurricane Katrina, Enterprise is committed to ensuring that all communities have an affordable housing infrastructure with the resilience necessary to provide shelter and services to people in need during and after disasters.

The need for the Housing Credit and NMTC is especially acute in communities that have been impacted by natural disasters. Recognizing the ability of these proven community development tools to accelerate recovery, Congress has provided increased allocations of the Housing Credit and NMTC to the regions affected by major disasters like Hurricane Katrina and tornadoes in the Midwest. However, though disaster tax relief has been provided routinely in the past, no similar relief has been provided for the over twenty states that have experienced federally declared natural disasters since 2012, including Hurricane Sandy, Hurricane Isaac, mudslides in Colorado and Washington State, and wildfires in California, to name a few.

Though the resources already devoted to recovery efforts, such as Community Development Block Grant Disaster Recovery (CDBG-DR) funds, have helped to rebuild homes and businesses in many of these communities, there are still hundreds of thousands of households in need. It is nearly impossible to replace lost affordable housing without the Housing Credit, and more difficult to revitalize the most distressed neighborhoods without the help of the NMTC. For these reasons, legislation that would provide increased allocations of the Housing Credit and the NMTC for communities impacted by natural disasters has received strong bipartisan support.



Enterprise believes that comprehensive tax reform is an opportunity to provide relief for the communities that have already been impacted over the past several years, as well as the communities that will inevitably be affected going forward. Private sector involvement is a critical component of the disaster recovery effort, and tax relief that includes an increased allocation of the Housing Credit and NMTC would ensure that communities have access to the tools they need to rebuild and recover as quickly as possible.

Again, thank you for the opportunity to comment on this important legislation. If we can provide any additional information or answer any questions, please feel free to contact me at [REDACTED] or Emily Cadik, Senior Analyst/Project Director, at [REDACTED].

Sincerely,

A handwritten signature in blue ink that reads "Alazne Solis".

Alazne Solis
Senior Vice President, Chief Public Policy and Corporate Affairs Executive
Enterprise Community Partners