

HOUSING TAX CREDIT PROGRAM

Removal of Letters of Support from State Representatives

BACKGROUND

Today, nearly half (48%) of all renting Texas families are considered cost-burdened, and the supply of available affordable housing is insufficient to meet our State's current and future needs. This shortage increases the cost of available housing, strains already cost-burdened Texans, and makes homeownership harder to achieve. In addition, an average of 240 people are moving to Texas daily.¹ The limited supply of quality affordable housing will only become more strained and expensive as the population and demand continue to increase.

For over 30 years, the Housing Tax Credit program² has been widely considered to be the most successful program for providing affordable housing in the nation. In Texas, the program is administered by the Texas Department of Housing and Community Affairs (TDHCA). The program's oversight of hundreds of millions in capital investment for affordable housing comes with the responsibility for determining which developments are funded through a transparent process that is rooted in state law. However, one of the many components for evaluating allocation awards is the inclusion of *Letters of Support from State Representatives*. The weight of this scoring category alone carries enormous influence on the process and can single-handedly derail tax credit applications through a representative's opposition or refrain from requests for support, even when neighborhood stakeholders and local governments have endorsed them. Further, the use of this criteria for determining tax credit allocations is discouraged by the Internal Revenue Service (IRS)³, the federal agency that authorizes tax credits, and is similarly reflected in a report by the Government Accounting Office (GAO).⁴ In order to be compliant with the intent of the program while ensuring public transparency, TAAHP supports the removal of this scoring item for evaluating tax credit allocations for affordable housing.

TAAHP Supported Legislation: Removal of Letters of Support from State Representatives

The Housing Tax Credit program is administered with a categorical point system that is vetted and scored through the annual Qualified Allocation Plan (QAP). The limited allocation of tax credits results in an extremely competitive process, where applicants must fully understand program nuances and seek every available opportunity to offer a viable application for affordable housing developments. Because of the competitive nature of the process, a series of tie-breakers are a critical component in determining tax credit awards. Many times, only a few points separate successful applications from unsuccessful ones. The priority of available points which determine an application's success is delineated in Texas State Code (Chapter 2306). While key scoring criteria such as Financial Feasibility, Tenant Income Level, and Community Support appropriately drive larger point attributions, the category of Letters of Support from State Representatives is the only one where points may be removed from an application, thereby having an immediate impact on a potential development's viability to a less than 1% chance of receiving an allocation.

In addition to a development's proposed financial structure and tenant service levels, the QAP process requires significant demonstration of support from community organizations and local governments. The process allows for anyone or any organization with an interest in the proposed site to provide input on these developments. State representatives, as with other community stakeholders, certainly deserve the right to comment on and provide input on proposed developments. However, an applicant's inability to obtain a letter of support from a state representative should not single-handedly preclude affordable housing from where it is being proposed. This important QAP process dictates where hundreds of millions in capital are invested for affordable housing and should allow applications and developments to stand on their respective financial and service merits without placing an unfair burden on our state elected officials to decide among applicant "winners and losers."

¹ "Texas Relocation Report, 2018 Edition", Texas Association of Realtors. April 2, 2019. <https://www.texasrealestate.com/wp-content/uploads/2018TexasRelocationReport.pdf>

² Since its inception in 1986, the federal Housing Tax Credit program (HTC) administered by the Texas Department of Housing and Community Affairs (TDHCA) is the most successful public/private partnership that provides affordable housing to residents across the state. The HTC program has produced more than 290,000 affordable housing options for Texas residents earning less than the area median income (AMI). Residents who benefit from this program include: Teachers, First-responders; Social Workers, Childcare Providers, Home Health Workers; Farmers and Ranchers; Construction Workers, Retail Managers, Seniors, and Veterans.

³ United States. Internal Revenue Service. *Section 42 - Low Income Housing Credit*. 2016. Accessed April 2, 2019. <https://www.irs.gov/pub/irs-drop/r-16-29.pdf>. - 26 CFR 1.42-

14: Allocation rules for post-2000 State housing credit ceiling amount

⁴ "LIHTC: Action Needed to Strengthen Oversight and Accountability." United States Government Accountability Office. August 01, 2017. Accessed April 02, 2019. <https://www.gao.gov/assets/690/686345.pdf>.