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TESTIMONY

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SENATE BILL 85 AND LOW-INCOME HOUSING TAX CREDITS

By Elias Tsapelas

Testimony before the Senate Economic Development Committee

TO THE HONORABLE MEMBERS OF THIS COMMITTEE:

Thank you for the opportunity to provide testimony today. My name is Elias Tsapelas, and I am a senior analyst at the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that advances sensible, well-researched, free-market solutions for state policy. The ideas presented here are my own and summarize research regarding the use of low-income housing tax credits for economic development purposes.

Missouri has a long history with the state's version of the low-income housing tax credit (LIHTC), and the program's oft-discussed economic justification. For roughly 20 years our state matched each federal dollar allocated to the program's subsidization of affordable housing development on a one-to-one basis, but in 2017 Missouri's program was halted pending reform. Now, more than three years later, the Missouri Housing Development Commission (MHDC) has resumed the program without legislative action, and the question is what can be done to make the program better going forward.

Senate Bill 85 would place an aggregate cap on the amount of state LIHTCs that can be authorized in a given fiscal year; the cap would be set at 70 percent of the federal allocation. Such a move would formalize the cap that is already included in the MHDC's 2020 Qualified Allocation Plan for the program. In addition, the bill would reduce the limit on tax credits awarded for projects financed through tax-exempt bonds from $6 to $4 million, and stipulates that whenever that cap is not reached, the remaining amount may be allocated toward projects that are not financed through tax-exempt bonds.

While capping state spending on the LIHTC program will result in less taxpayer expense than was customary prior to 2017, it is my belief that the provisions in SB 85 do not go far enough toward addressing the problems that warranted the suspension of the program in 2017.

The justification for Missouri's LIHTC program offered by proponents is that there is an inadequate supply of affordable housing, and that the federal program does not sufficiently incentivize the development of such projects. If these claims were true, it would then follow that state investment in the program would offer Missourians a cost-effective way to increase the availability of affordable housing. But years of research and multiple state audits have shown that Missouri's LIHTC program is not a worthy investment for state taxpayers.

First, the program does not achieve the purpose for which it was designed—to increase the supply of affordable housing. Dr. Michael Eriksen of the University of Cincinnati studied the federal LIHTC program across the country and found no significant increase in the supply of affordable housing despite the government's more than $8 billion in foregone yearly revenues.[1] Eriksen explained that the program is insufficiently targeted and is not a cost-effective means for incentivizing the development of housing.

The experience at the federal level has been duplicated in Missouri. Multiple state audits of the LIHTC program have shown that the program is not cost-effective.[2] As of the latest report, for each dollar allocated in credits, less than $0.42 goes toward the construction of housing.[3] And when the LIHTC is evaluated as an economic development tool, the results are even worse. For each dollar awarded in credits, Missouri received a return of only $0.12.[4] With such dismal results, it should not be surprising to hear that the program has repeatedly shown itself to be ineffective. Further, it should be clear that taxpayers deserve better.

It is often argued that without the state's LIHTC program, it wouldn't be economically feasible for housing developers to continue building projects with affordable rents. But this claim is also at odds with Missouri's experience. In each of the years since Missouri stopped matching federal LIHTCs, the MHDC still received far more applications for credits than could be accommodated by the federal allotment. In addition, the number of units approved for construction without Missouri's match of the federal credits remained largely unchanged. In other words, with LIHTCs available only at the federal level, the demand for credits from developers remained strong and the number of units they were developing stayed the same. If Missouri taxpayers can receive roughly the same benefits without their additional investment, the question to ask is why the state's portion of the program exists at all.

To be clear, there are a variety of ways the state's program could be improved to make it a better investment for taxpayers that goes far beyond simply capping yearly expenditures. During the time when the program was halted, the legislature has had productive discussions regarding how to reform and improve state tax credits, and those efforts should not cease now that the program has resumed despite the lack of legislative action. Missourians deserve affordable housing policy that is both accountable and effective, and unless further reforms are enacted, neither of those words should be used to describe the low-income housing tax credit. The committee should seize this opportunity to significantly improve the state's tax credit programs, or if not, at least consider halting LIHTC again until it can be reformed.

Elias Tsapelas is a senior analyst at the Show-Me Institute.

ENDNOTES

1. Eriksen, Michael D, and Bree J. Lang. "Overview and Proposed Reforms of the Low-Income Housing Tax Credit Program" July 2018. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3132493
2. Galloway, Nicole. "Tax Credit Programs" Report No. 2017-051. June 2017. https://app.auditor.mo.gov/Repository/Press/2017051896073.pdf
3. Ibid.
4. Ibid.

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