

DATE: February 26, 2019

BILL NO.: Senate Bill 715

COMMITTEE: Senate Budget and Taxation

TITLE: Housing and Community Development - Affordable Housing Development Credit Program

SPONSORS: Sen. Guzzone

Letter of Information

Description of Bill:

Senate Bill 715 would create a state income tax credit to work in conjunction with the federal Low Income Housing Tax Credit (LIHTC) and tax-exempt bonds. A qualified development under this proposal would be required to meet eligibility requirements for the federal LIHTC program and would need to be paired with 4% LIHTC. This proposed credit is supported by mandatory spending beginning in FY22 and ending in FY33.

Background and Analysis:

The Department of Housing and Community Development (DHCD), through its Community Development Administration (CDA), is the State's Housing Finance Agency authorized to issue tax-exempt bonds and to allocate the federal LIHTC to support the production of affordable rental housing in Maryland. There are two types of LIHTC, informally referred to as the 9% credit and the 4% credit. To qualify, a project owner must agree to comply with 26 USC § 42 and maintain an agreed-upon percentage of units for low income households. The project is required to meet their particular low income requirements for a 15-year initial "compliance period" and a subsequent "extended use period" of at least 15 additional years.

Developers of affordable rental housing do not generally keep an allocation of credits for themselves, though they may do so; instead, they use the credit to raise development capital by working directly with an investor who invests into a pass-through entity receiving tax credits or by working with a syndicator who acts as a broker between the developer and investor. In this way, the developer receives upfront capital to cover development costs and the investor benefits by "buying" the tax credits at a cost less than their full value. The value of a federal LIHTC credit presently hovers between \$0.90 and \$0.95 per dollar of credit eligible to be taken on federal taxes. Investors in LIHTC also benefit from other tax benefits associated with owning rental housing such as depreciation. We anticipate the value of a state tax credit to be approximately \$0.50-0.60 per dollar of credit the state is offering.

(more)

Presently, DHCD operates a program called Rental HousingWorks (RHW), which provides gap financing for affordable housing projects. RHW is operated in conjunction with the issuance of 4% LIHTC and results in quality affordable rental housing for low- and moderate-income households across the State of Maryland. RHW has proven to be very successful as an economic stimulus initiative that also addresses Maryland's significant shortage of affordable rental housing. RHW is a loan program, which means that participating affordable housing projects are able to apply every dollar in financial assistance directly to subsidize the construction of affordable housing and the state receives its money back with interest. For FY2021, Governor Hogan has included a record \$37 million for RHW in his budget.

Each dollar of RHW additionally yields \$11-15 in private capital from CDA-issued tax-exempt bonds, CDA allocation-based LIHTC equity, as well as other private and public sources. The current pipeline for RHW includes requests for over \$69 million in state dollars, generating over \$750 million in total project costs, 3,292 units created or preserved, and over 6,300 estimated jobs.

