E-1040

Exploring the potential effectiveness of a state Low Income Housing Tax Credit in Oklahoma

Oklahoma Cooperative Extension Service
Oklahoma State University
2014

2014 Report
Oklahoma State University

Jorge Atiles, Ph.D., Professor, Housing
Sissy Osteen, Ph.D., Associate Professor, Resource Management
Gina Peek, Ph.D., Assistant Professor, Housing & Consumer Issues
Dave Shideler, Ph.D., Assistant Professor, Economic Development
Brian Whitacre, Ph.D., Associate Professor, Rural Development

Acknowledgements

This report was funded by the Oklahoma State Home Builders Association.

Purpose

The purpose of this study is to explore the need for a state Low-Income Housing Tax Credit (LIHTC) program in Oklahoma. Specifically, this study examines affordable housing needs and likely population targets, reviews the current performance of the federal LIHTC in Oklahoma, and summarizes the potential effectiveness for a state level LIHTC.

State of LIHTC in Oklahoma

There is a federal LIHTC program that impacts Oklahoma. Currently, there is no state level LIHTC program.

Executive Summary

The potential effectiveness of a state level LIHTC in Oklahoma

Oklahoma State University - 2014

Faculty at Oklahoma State University and Cooperative Extension studied the benefits of the federal Low Income Housing Tax Credit (LIHTC) in Oklahoma since 1987. Based on the results of this study and the experiences of LIHTC in Georgia and other states, we now know that a state LIHTC will enhance and multiply the benefits to industry and people of Oklahoma. Specifically, it will:

1. **Help address Oklahoma's affordable housing supply problem given that it is a state with a high poverty rate.**
2. **Stabilize the housing market by making rents more affordable and reducing the growth of vacant properties, which often become vandalized, dilapidated, and a tax burden to the counties.**
3. **Communities with LIHTC developments help reduce the rate of severe poverty (about 12%).**
4. **Stimulate construction and the economy.**
5. **Build on the proven success of the federal LIHTC program in the state. Developers in Oklahoma had a positive experience with this program and favor the creation of a state LIHTC.**
6. **Address the needs of the workforce in the growing energy industry in Oklahoma. Similar situations in other states show that many energy workforce families end up staying in the community long-term.**
7. **Expand affordable housing opportunities in rural areas. The federal LIHTC in Oklahoma has not been able to significantly expand to rural areas. However, in other states, when a state LIHTC is created, rural areas benefit greatly.**
8. **Help the state perceive a net increase in total state revenue in the development phase.**
9. **LIHTC is designed to give states discretion in how to administer the program. Thus, it allows Oklahoma to align investments with rural housing needs, especially those impacted by a sudden demand by the energy sector workforce, older adults, and other limited-income Oklahomans. It is a long-term investment that is safeguarded. Oklahoma could recapture investments If the state LIHTC financed units are not leased to qualified tenants.**
10. **Expand a program that is pro-business. The LIHTC is probably the one tax credit to the private sector that most clearly benefits and improves wellbeing for the tax payers of the state.**

Georgia: An example of a state LIHTC program

- The Low-Income Housing Tax Credit (LIHTC) program is designed to create affordable, workforce housing through the use of incentives to private developers.
- Georgia implemented a state LIHTC program in 2000 to complement the existing federal LIHTC program. The program in Georgia was specifically designed to enable construction of affordable housing outside of the Atlanta metropolitan area, where lower incomes and the federal LIHTC program alone were not sufficient to finance the needed workforce housing.
- The Georgia LIHTC also allowed projects to use tax exempt bonds, which carried four percent federal credits, to be economically feasible, thus significantly increased the total workforce housing that could be constructed.
- According to Sweaney, Dorfman, Atiles, Kriesel, Rodgers, and Tinsley (2006), the Georgia state LIHTC program has substantially increased the number of affordable units for the workforce in non-metropolitan Georgia.
- During the 4-year period from 1997 to 2000, 86 housing properties were funded using the LIHTC (9 percent tax credits which financed 60 percent of the total cost), with a total of 8,611 units. Of this total, just over one-half, or 46 properties representing 3,531 units (41 percent of the total), were constructed outside the Atlanta metropolitan area. Within four years after the passage of the state LIHTC program, the number of properties and units constructed outside of the Atlanta metropolitan area expanded significantly.

Summary

Lessons learned from Georgia

According to Sweaney et al (2006), the state of Georgia benefited from a state LIHTC in several ways:

- It increased construction related economic activity by about $3.4 billion; generated about 12,000 jobs and about 25,000 affordable housing units in just three years (2001-2003). More than half of these units were in rural areas.

Based on this state example from Georgia, we know that a state LIHTC in Oklahoma will:

- Stimulate construction and the economy.
- Address the needs of the workforce in the growing energy industry in Oklahoma. Similar situations, including energy booms show that many energy workforce families end up staying in the community long-term.
- Expand a program that is pro-business. The LIHTC is probably the one tax credit to the private sector that effects more wellbeing to the taxpayers of the state.

Introduction

Why do we care?

Oklahoma faces an affordable housing supply problem with a high poverty rate. At $47,755, Oklahoma has the sixteenth lowest annual median family income for families with children (U.S. Census Bureau, n.d.). Housing needs are highest in rural areas, with an inadequate amount of affordable housing.

There is little turnover in home vacancies with more than 82 percent of occupants staying in homes from year to year. In fact, owner-occupied housing represents 81 percent of all households in rural Oklahoma. For the state as a whole, owner-occupied housing represents 66.4 percent of occupied units as compared to 63.9 percent of occupied units nationally.

There is lack of workforce housing in rural Oklahoma, especially with the influx of new workers. For example, the boom in oil and natural gas production has impacted housing needs. Oil production has increased by 45 percent since 2005, while gross gas production has grown to levels not seen since 1991 (U.S. Energy Information Administration, 2014a, 2014b). The influx of workers to fill additional jobs places a higher demand on available housing. Lower-income residents may be forced out of markets.

According to the 2012 American Community Survey, in Oklahoma, the estimated average monthly housing costs for owner occupied homes is 34.9 percent of income. Among homeowners with a household income of less than $49,999, 17 percent were housing cost burdened. That is, these households spent more than 30 percent of income on housing. That figure jumps to 41.5 percent for renters (US Census Bureau, 2012).

Affordable housing needs and likely population targets

- Families spending 30 percent or more of their income on rent/mortgage and utilities are *considered housing cost burdened.* Families spending 50 percent or more of their income on housing are considered *severely housing cost burdened* (Cook, Steggell, Suarez, & Yust, 2006).
- Spending too much on rent/mortgage and utilities means less money for other necessities, including food, transportation, and medical care.
- Lack of affordable housing essentially forces housing cost burden on some families.
- High-risk populations, including older adults and rural households, pay too much for deficient housing (Cook et al., 2006).

Barriers to affordable housing

One of the most critical housing challenges of the twenty-first century is affordability. Despite recognizing the lack of affordable housing as a serious issue, resistance to affordable housing opportunities exists (Carswell, Merrill, Sweaney, & Tremblay, 2006).

Affordable housing developers may have to rely on a number of resources, including subsidies, to complete projects. This might delay projects or reduce the numbers of units built (Carswell et al., 2006). Awareness of supporting resources has been instrumental in increasing affordable housing through the federal LIHTC.

Greater availability through the state level LIHTC has potential to increase supply of affordable housing and lead to local economic development.

Additionally, factors such as materials and labor costs, lack of infrastructure, and lack of local knowledge/ capacity to secure qualifying housing may serve as barriers to affordability. Lack of constituency support may also be a significant barrier to affordable housing programs. Perceptions of households receiving assistance and subsidized housing may not be favorable, leading to NIMBYism (not in my backyard) (Cook et al., 2006).

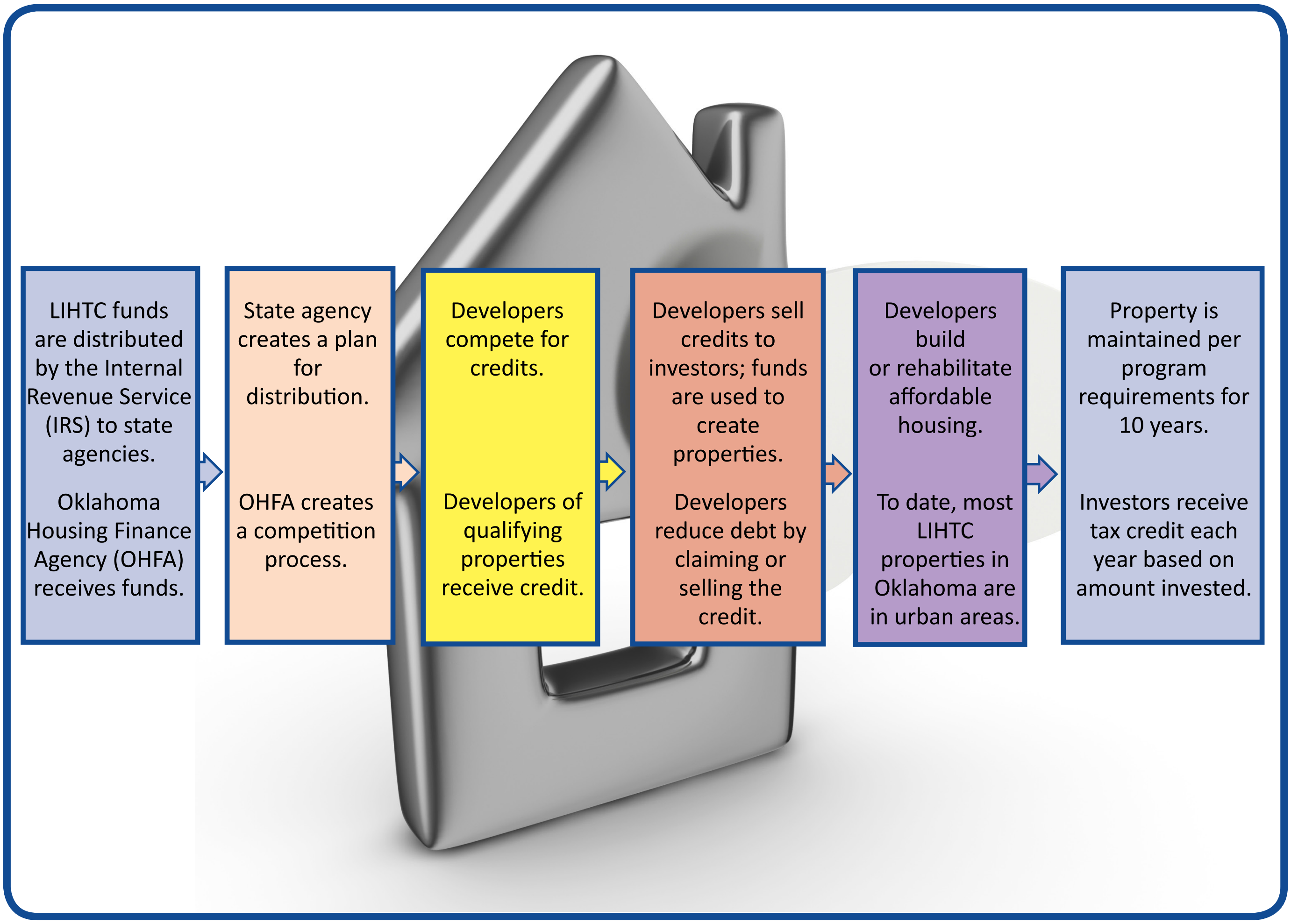
A possible solution: Low Income Housing Tax Credit (LIHTC)

The Low Income Housing Tax Credit (LIHTC), established by the Tax Reform Act of 1986, creates affordable rental housing opportunities for low-income households (U.S. Department of Housing and Urban Development, n.d.). LIHTC is a tool that incentivizes the private market to invest in affordable housing.

The federal LIHTC program in Oklahoma

The Oklahoma Housing Finance Agency (OHFA) administers the federal LIHTC program. OHFA is a "non-profit, tax-exempt entity with the state of Oklahoma as the beneficiary of the Trust" (OHFA, n.d.). OHFA began distributing tax credits in 1987. Although currently, there is no state-level LIHTC program in Oklahoma, the federal tax credit program has resulted in more than 450 residential developments between 1987 and 2011. Oklahoma companies managed 62.6 percent of developments during the 1990s, and 64 percent during the 2000s). Interestingly, Oklahoma companies handled 73.4 percent of the developments that dealt with 50 or fewer units, but only 41.5 percent of all developments with 50 or more units.

As you can see in the graphic below, in Oklahoma, developers are required to submit applications to the OHFA. OHFA reviews applications and selects those that best meet the intended purposes. The developer agrees to rent units to families with incomes that are at least 50 to 60 percent less than the area median income (Oklahoma Housing Finance Agency, 2013).



Review of the current performance of federal LIHTC in Oklahoma

The following data represent the period 1987-2011. As of 2011, Oklahoma had 466 projects that utilized federal Low-Income Housing Tax Credits; there are 25,261 units funded through this federal tax credit program. The majority of the residential developments were located in urban areas, had 16 to 50 units, and units featured two bedrooms. Table 1 presents descriptions of federal LIHTC residential developments in Oklahoma.

Table 1. LIHTC residential developments in Oklahoma

Total number of developments in Oklahoma that have used the federal LIHTC	466
Total units in Oklahoma that have used the federal LIHTC	25,261
Distribution of units across Oklahoma	
In metropolitan statistical areas (urban)	65%
In micropolitan counties (small cities)	24%
In non-core counties (rural)	11%
Developments by number of units	
15 or less units	12%
16-50 units	54%
51-150 units	27%
More than 150 units	7%
Developments by size of units available	
1 bedroom	32%
2 bedrooms	46%
3 bedrooms	21%
4 bedrooms	1%

Methodology

Case Studies

A convenience sample of developers that had received the federal LIHTC for Oklahoma was interviewed. A list of Oklahoma and out-of-state developers was secured from the U.S. Department of Housing & Urban Development. From this list of developers, six were selected based on having experience with LIHTC across Oklahoma and their availability to participate in the survey. Oklahoma State University Institutional Review Board (IRB) approval was secured. The interviews reveal the following:

Developers had a positive experience with the federal Low-Income Housing Tax Credit (LIHTC) in Oklahoma.

Thoughts from developers that received the federal LIHTC:

Reasons why developers had a positive experience with the federal LIHTC:

- We had more flexibility because we knew there would be a return on the money we spent to do the rehabs.
- Has helped create equity for apartment communities in rural areas of Oklahoma that would not be built or rehabbed any other way.
- We have a lot of need and demand in the communities where we develop projects, but there are few resources. It's a major job without a huge payoff if we don't get support. This credit helps us a lot.
- It met a real need and provided an incentive for us to build projects
- We had a great staff to work with; and were able to create affordable housing for so many people (rural areas)

Examples of how developers thought their federal LIHTC developments affected the local community:

- We gave people homes that would not have been able to live otherwise. It makes the community healthier; helps keep people from moving away. We hired local people to work and we bought materials.
- Affordable housing is much needed, especially for senior population. The need will only continue to grow.
- Created safe, affordable housing for Low to Moderate income families and elderly in rural Oklahoma.
- It helped get people in, gave them a place to stay that they could take pride in. It puts people to work and increases the number of folks who stay in the area. Without it, we would see more people leaving.
- We built where there was nothing before in several areas. We knew there were people who needed a place to live that didn't have the money to buy and many times even rent. The projects stay in the community and keep helping.
- Definitely! In a positive way.

Other information from developers that received the federal LIHTC:

- This would increase the number of jobs in rural Oklahoma and the tax base of the towns and cities these communities are in.
- It sounds like a good plan.
- This could help encourage other developers in the state to get involved in increasing housing and jobs in areas where they are lacking.
- Think that the federal made priority for rural areas. Oklahoma did away with many of the rural setbacks. It's hard for rural developers to compete with urban areas. Most small towns have small budgets. It's hard to get points. Would like to see set aside for small, rural complexes (ex. those 25 units or less). The state level set aside could be used for small, rural complexes.

100% of developers interviewed:

Believe that the federal LIHTC is a program that benefits Oklahomans and the economy.

Believe that Oklahoma will benefit from creating a state LIHTC.

Believe that Oklahoma needs more affordable housing for the workforce.

Assessing the long-term impacts of the federal LIHTC in Oklahoma

As the map below makes clear, the major metropolitan areas in the state (Oklahoma City, Tulsa) were the primary beneficiaries of the federal LIHTC program. While the more rural parts of the state did receive some LIHTC developments, many of them occurred in the 1990s. **This suggests that the federal LIHTC program has not played a large role in helping develop rural Oklahoma housing throughout its existence, but even less so during the past 10 to 15 years.** A state LIHTC dedicated to rural areas could address this disparity.

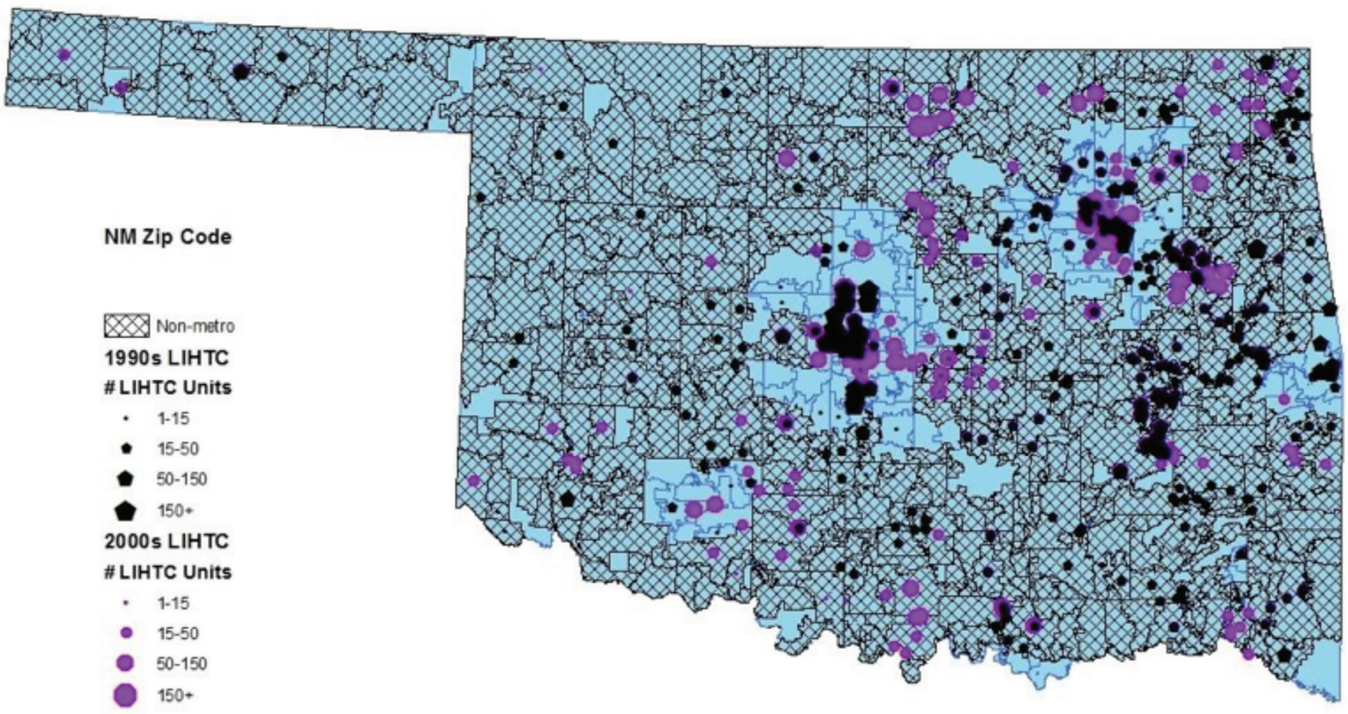
To assess the long-term impacts of the federal LIHTC program in Oklahoma, communities that received a development were matched to “otherwise similar” communities in terms of population, racial and ethnic composition, education levels, and unemployment statistics.

A statistical technique known as *Mahalanobis matching* produced the three nearest neighbors for each recipient community, based on minimizing the aggregate differences in all of these categories. The recipient communities were then compared to their three closest “mirror” neighbors that did not receive any LIHTC developments. Census data from 1990, 2000, and the 2008-2012 American Community Survey were used to compare growth rates for several economic variables of interest. If a community received an LIHTC development between 1987 and 1995, changes over the period 1990 - 2000 were used; if the LIHTC work occurred between 1995 and 2005, changes over the period 2000 - 2010 were used. LIHTC developments that were started after 2005 were not used for this data analysis.

The results suggest that many economic variables were not significantly different between recipient and non-recipient communities. This included changes in population, median household income, and median housing values. There were, however, two distinct instances in which communities that received an LIHTC project fared significantly better than their non-recipient counterparts:

- For LIHTC communities under 2,500 population, the percentage of residents in “severe” poverty (<0.5 times the federal poverty line) was reduced by 12 percent between 1990 and 2000 Otherwise similar communities experienced a 2.3 percent increase in this category during that time.
- For LIHTC communities over 2,500 population, the percentage of vacant houses saw significantly lower growth between 2000 and 2010 than did otherwise similar communities.

Units funded by federal Low-Income House Tax Credits in OK, 1987-2011



Source: http://www.huduser.org/portal/datasets/lihtc.html

References

Carswell, A. T., Merrill, J. L., Sweaney, A. L., & Tremblay, K. R. (2006). Housing challenges for the twenty-first century. In J. L. Merrill, S. R. Crull, K. R. Tremblay, L. L. Tyler & A. T. Carswell (Eds.), *Introduction to housing*. Upper Saddle River, NJ: Pearson Education, Inc.

Cook, C.C., Steggell, C. D., Suarez, A., & Yust, A. (2006). Housing affordability. In J. L. Merrill, S. R. Crull, K. R. Tremblay, L. L. Tyler & A. T. Carswell (Eds.), *Introduction to housing*. Upper Saddle River, NJ: Pearson Education, Inc.

Oklahoma Housing Finance Agency. (2013). OHFA tax credit compliance manual. Oklahoma City, OK: Author.

Oklahoma Housing Finance Agency (OHFA). (n.d.). OHFA history. Retrieved February, 2014, from http://www.ohfa.org/pageviewer.aspx?m=SUBPAGE_AboutHistory.html

Sweaney, A. L., Dorfman, J., Atiles, J., Kriesel, W., Rodgers, T., & Tinsley, K. (2006). The economic impact of Low Income Housing Tax Credits in Georgia: Report ot the Georgia Affordable Housing Coalition. Athens, GA: The University of Georgia Housing and Demographics Research Center. Retrived March, 2014, from http://www.gahcoalition.org/content/articles/157/LIHTC%20Final%20report%20060206.pdf

U.S. Census Bureau. (2012). Financial characteristics: Oklahoma. 2012 American Community Survey 1-year estimates. Retrieved March, 2014, from http://factfinder2.census.gov/bkmk/table/1.0/en/ACS/12_1YR/S2503/0400000US40

U.S. Census Bureau. (n.d.). Median Household Income (In 2012 Inflation-adjusted Dollars) by State Ranked from Highest to Lowest Using 3-Year Average: 2010-2012. Retrieved March 1, 2014, from http://www.census.gov/hhes/www/income/data/incpovhlth/2012/stateonline_12.xls

U.S. Department of Housing and Urban Development. (n.d.). Low income housing tax credits. Retrieved March 1, 2014, from http://www.huduser.org/portal/datasets/lihtc.html

U.S. Energy Information Administration. (2014a). Oklahoma field production of crude oil. Retrieved March 1, 2014, from http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=mcrfpok1&f=a

U.S. Energy Information Administration. (2014b). Oklahoma natural gas gross withdrawals, from http://www.eia.gov/dnav/ng/hist/n9010ok2A.htm

Your questions answered

Q: Why do we need a state LIHTC program when there is a federal LIHTC program?

A: The Low-Income Housing Tax Credit (LIHTC) program is designed to create affordable, workforce housing through the use of incentives to private developers. The federal program can only accomplish so much— a state program can do a lot more, especially in addressing rural areas. The risk to the state is minimum because LIHTC are redeemed only after the development is completed and fully occupied by qualified residents.

Q: Who is going to pay for a state level LIHTC program?

A: There is no upfront cost to the program. Instead, the LIHTC represents a temporary loss of revenue for the state. The argument is that construction and subsequent sales tax and property tax will offset losses, benefiting state and local revenues.

Q: Why do we need another housing program? We already have housing choice vouchers (Section 8) and public housing.

A: Across the U.S., the federal LIHTC provides the greatest number of new affordable housing opportunities. Housing opportunities, such as rent vouchers, benefit only part of the low-income population. There is a large low-income population that does not receive assistance (Desai, Dharmapala, and Singhal, 2010).

Q: Who wants a state level LIHTC?

A: The federal LIHTC continues to be popular and receives bipartisan support. It is supported by the private sector including but not limited to housing advocates, developers, and investors (Desai, Dharmapala, and Singhal, 2010). Understandably, LIHTC is desirable for those low-resource consumers that need it most, that is, people who need affordable housing.

Q: What is the potential economic impact of a state level LIHTC?

A: Studies conducted in other states show that in the development phase, the state will perceive a net increase in total state revenue because of this private sector economic activity that translates into higher incomes (therefore taxes), sales and property taxes. In Georgia, for example, for every dollar of state tax credit awarded, $8.36 were generated, on average, in economic activity.

E-1040

Extension