

Tracy Peters Written Testimony on Low-Income Housing Tax Credit and the Ohio Housing Trust Fund

Good Morning Chairman Dever and members of the Committee. Thank you for allowing me to address the committee to provide background on the Low Income Housing Tax Credit Program.

My name is Tracy Peters and, I am the Senior Managing Director of Affordable Housing for RED Capital Group. RED Capital Group, LLC has provided over \$72 billion of integrated debt and equity capital since 1990 to the seniors housing and health care, multifamily, affordable, and student housing industries through three operating companies.

I am also a President of the Ohio Housing Council. OHC is a statewide association of affordable housing professionals whose goal is to increase production and preservation of affordable housing in Ohio. The affordable housing industry is one of the most highly regulated segments in the real estate development marketplace. It shouldn't be so hard to develop, build, and operate multifamily affordable rental housing; but it is, OHC helps developers by providing them up to date information and acting as a conduit for communication with the Ohio Housing Finance Agency (OHFA).

Having a safe, decent, affordable home where people can live within their means and raise families with stability is the cornerstone for life success. Housing is the heart of education, health and employment issues. It is not just providing a home, it is helping break the cycle of poverty and providing the opportunities to redefine futures. Providing affordable housing is critical in addressing the issue of homelessness in our state. Many people require assistance with their housing: seniors who live on social security, those with physical or mental challenges, low-income families who are working low-paying jobs, to name a few.

The Low Income Housing Tax Credit (LIHTC) program is a Federal program administered by the Internal Revenue Service. Each state receives an allocation of tax credit based on population. In 2017 Ohio will receive an allocation in excess of \$27 million. The program is administered by the Ohio Housing Finance Agency (OHFA). The allocation of credit to developers is through a competitive process controlled by a Qualified Allocation Plan (QAP). The developers receive an allocation of these federal tax credits (based on the depreciable basis of the construction/development), which, in turn, they sell to raise equity for the completion of the development. This makes hard debt significantly lower than in conventional apartment communities allowing the owner to charge rents 60% of the Area Median Income and below. The plan is designed to meet local housing needs. It is a highly competitive process, only about one in four projects are funded.

The LIHTC program is a source of equity for the development of affordable housing that serves households earning less than 60% of Area Median Income or the AMI. The LIHTC program is a public/private partnership bringing together the Federal government, OHFA and the private sector.

The LIHTC program provides the production and preservation of a variety of housing: Family rental housing, lease-purchase, single family houses, senior housing, work force housing and special needs housing (domestic violence, veterans, mental illness, and homelessness). The housing is located in urban, suburban and rural Ohio.

It is a complex program that results in quality housing for working families of moderate income as well as Ohio's most vulnerable populations.

A vital part of this process is the Ohio Housing Trust Fund. It is extremely important as a supplement to tax credits. There are two reasons the Trust Fund is important to Ohioans. The first is that the Trust Fund is not hard debt, meaning that it is repaid through cash flow after the primary debt is paid and/or upon the sale of the asset. This allows (and is required if utilizing the resource) owners to provide housing for residents at 30% - 50% of the AMI. These extremely low-income residents would not be able to be served through this program if not for the Trust Fund because more hard debt would have to be put in place to fill the financing gap, which really can only be done with 60% AMI units. The second reason the Trust Fund is so important is that fewer communities and units would be produced in Ohio if this fund was not in place. These funds allow four to five additional communities to be built each year and account for 200-300 units.

Finally, LIHTC and the Trust Fund provide stability. They require owners to maintain the rent and affordability restrictions for 30 years. However, it does come at a price on the constructions side. These communities do not generate a significant amount of cash flow to pay for long-term repairs and maintenance. Therefore, the standard of constructions must be higher from the beginning. Many market rate apartments are constructed by owners that have the intention of selling them in the first three to seven years. You cannot take the same construction risk when construction units that you plan to own for a 30-year period. In addition, the industry requires the responsible construction through high energy efficiency and accessibility standards for all communities that are built with LIHTC and Trust Fund dollars.

Mr. Chairman, thank you for the opportunity to discuss these topics today. The Ohio Housing Council appreciates your support and willingness to continue to learn more and make a difference in the lives of Ohioans through tax credit housing and these important programs.