Testimony of Shawn Smith, Executive Director
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House Economic and Workforce Development Committee
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Good afternoon, Chair Swearingen, Vice Chair Santucci, Ranking Member Upchurch, and members of the Economic and Workforce Development Committee. My name is Shawn Smith. I am the Executive Director of the Ohio Housing Finance Agency (OHFA). I appreciate the opportunity to discuss how we administer the federal Low-Income Housing Tax Credit.

Since it was created in the Tax Reform Act of 1986, the federal Low-Income Housing Tax Credit (LIHTC) has been OHFA's primary tool to help fund the construction and preservation of affordable rental housing. This important resource shifted the development of affordable housing from a project-based model funded by the U.S. Department of Housing and Urban Development to a public-private partnership model that is administered at the state level and is accountable to the Internal Revenue Service.

State housing finance agencies, like OHFA, were delegated the responsibility to award these federal tax credits. Each year, the IRS allocates a limited amount tax credit authority to each state, based on population, which then determines how to award them for the development of affordable rental housing. Section 42 of the Internal Revenue Code lays out the parameters for the Housing Tax Credit program including application requirements, multiple underwriting reviews, and compliance monitoring procedures to ensure that developments achieve the goals of the program.

With significant stakeholder input, OHFA annually develops a Qualified Allocation Plan to administer Ohio's federal Housing Tax Credits. This process improves program administration and includes guidance for tax credit developers regarding OHFA priorities and selection criteria that can address property locations, populations served, and housing needs.

Tax credits are awarded annually to successful applicants and are not refundable. Developers rarely have enough tax liability to use the credits, so they engage investors, such as banks and insurance companies, to provide an equity investment in exchange for the tax credit benefit. These investments are used to pay off the property's construction loans and enable the property to maintain a modest mortgage payment that is supported by the required lower rents. In return, investors use the tax credits for ten years to reduce their federal tax liability and, in the case of banks and insurance companies, to help meet their Community Reinvestment Act requirements.

OHFA administers two types of federal Housing Tax Credits: 9% and 4%. The 9% LIHTC is awarded competitively, and an objective scoring matrix is developed and published in the Qualified Allocation Plan to provide applicants with transparency regarding how projects will be evaluated. In recent years, OHFA's 9% credit program has typically received approximately 70 to 90 applications and has been able to award 9% credits to about 30 to 35 developments. OHFA's 4% credit programs also typically receive approximately 40 to 50 applications and funds about 25 developments on average. In 2022, OHFA awarded 53 projects across the 9% and 4% tax credit programs, resulting in the development and preservation of approximately 6,400 affordable rental units.

The 4% credit is non-competitive and, as long as a development meets both OHFA and federal program requirements, credits can be awarded to eligible applicants. The 4% credit generates less equity investment than the 9% credit and must be paired with a Multifamily Tax Exempt Private Activity Bond issuance that is counted against the state's Bond Volume Cap.

To ensure projects are funded at an appropriate level in keeping with Section 42 requirements, OHFA underwrites each proposal at three different stages. First, we underwrite when the proposal is submitted, then when the credit is awarded, and finally when the building is placed into service. This extensive evaluation gives us confidence that the development will be financially stable throughout the compliance period while minimizing the amount of subsidy provided.

The equity investment generated from the Housing Tax Credit makes these developments financially viable while maintaining affordable rents for 30 years. Rent levels which also include utility costs are set by HUD at what is determined to be affordable according to Area Median Income levels and are substantially lower than market rate rents.

Developments are subject to significant compliance requirements, including in-unit inspections by OHFA, and reviews of income certifications and rent records. Additionally, properties are required to maintain operating and replacement reserves to ensure there are funds to maintain physical and financial standards.

To date, OHFA has used the federal Housing Tax Credits to help build or preserve more than 150,000 affordable rental housing units.

Thank you for the opportunity to discuss OHFA's administration of the federal Low-Income Housing Tax Credit. I am happy to answer any questions you might have.