# FAQs ABOUT MISSOURI'S LIHTC PROGRAM

## Do we really need a state LIHTC program? Can't the market supply affordable housing?

Yes, there is a need, especially for 3 groups:

- Single parent families living in trailer parks, friends' basements, poorly-insulated, dilapidated shacks with high utility bills, and motels. The instability forces children to constantly switch schools, damaging academic performance and often exacerbating behavioral issues.

- Seniors who can't afford their home and are forced onto Medicaid to enroll in a local nursing home.

- People with special needs and homeless veterans with nowhere to turn after the closing of state mental institutions and a significant decline in federal support.

Of the tens of thousands in crisis, only half qualify for rental assistance, and less than 20% receive aid because the resources are scarce – waiting lists for rental assistance are 12-18 months long throughout Missouri. Today, waiting lists for assistance from the St. Louis City, St. Louis County, and Kansas City Housing Authorities contain thousands of people; some waitlists are so full that they are closed. A recent state study counted 16,000 homeless schoolchildren, excluding kids age 0-5. Homeless children are less likely to complete high school and more likely to cost the state money throughout their lives.

## Why is Missouri's program so big? Don't some other states build non-LIHTC affordable housing?

Yes, they do. But many states subsidize affordable housing using other programs Missouri lacks. For instance, while we frequently hear that Missouri has one of the nation's largest LIHTC programs, we don't hear is that some other states spend far more money with the same goal. For instance, though New York State's LIHTC program is smaller than ours, they spend a billion dollars annually to subsidize rents.

## A state audit claimed that LIHTCs only provide 43 cents on the dollar of actual housing. True?

- No. First of all, that figure is outdated; state LIHTCs now sell for roughly 55 cents, and they pay out over ten years. As any economist – or Popeye's Wimpy in search of a hamburger – could tell you, inflation means that the value of an item today is different from its value 14 years in the future. If someone asked you to give him $100 today and offered to pay you back $10/yr for 10 years, starting in 3 years, and ending in 13 years, would you do it? Probably not, and neither would affordable housing investors. Here are some further relevant points:

- Given current federal tax rules, the state credit is the most efficient way to fund affordable housing. An outright grant would be taxed at 40% (unlike a tax credit); and a loan must be paid back, meaning higher rents. Most important, both grants and loans put the state at risk, unlike a tax credit which places all risk on private actors. There is no perfect system under current rules.

- A recent state audit suggests using state grants as a more efficient way to build affordable housing. But grants would cost the state up-front, creating a huge short term fiscal note. Also, importantly, the state would incur 100% of the risk. Under program rules, credits don't flow until units are leased according to stringent guidelines, and credits are recaptured from projects that fail or are in violation. Since one-third of approved projects are not ultimately built or fall out of compliance, the state could be out a lot of money - a risk currently borne by investors.

- Grants would remove the private oversight/market discipline that comes with a tax credit program. LIHTC is preferable to the old system which suffered from tremendous waste and mismanagement, and which saw taxpayers spending money to tear down structures just 2-3 decades after they were built. Compared to that, a state tax credit is a very efficient alternative.

- It's inaccurate to say that 55 cents goes into project and the rest is profit. This excludes two major expenses: 1) federal taxes up to 35%; and 2) decreased value of credits in years 3-14 due to inflation (i.e., time value of money). That is, before investors receive a return, typically concluding 13-14 years after the award, inflation has eaten up about 30 cents of the dollar.

### You cite cost savings from LIHTC that don't show up in the audit? I'm skeptical; explain.

There are several sources of cost savings not calculated by auditors. Here are a few:

- LIHTC reduces rents by an average of $288 month for residents.

- Given local governments costs to provide emergency care for enfeebled people isolated in dilapidated homes, many expenses are reduced or never incurred when people who experience emergencies in a LIHTC development with on-site support services are spotted and cared for.

- Reduced nursing home use generates significant Medicaid savings. Over 40% of seniors living in LIHTC units are detoured from Medicaid-funded nursing home units. The average annual nursing home costs the state $29,871 per unit, whereas the annual LIHTC allocation per elderly resident is $7,773. Based on an average of 332 units annually for the past five years, tax-credit senior housing brings $7.4M of annual savings to the state.

- Homeless vets are another key LIHTC constituency. Returning vets, who may suffer from PTSD and substance abuse issues, face challenges finding affordable housing and support services. LIHTC helps groups like The Salvation Army build affordable housing that includes on-site support, sparing government from delivering costly mental health and medical services.

### Who are these "syndicators" and how do middlemen make money off these deals?

Syndicators are more than just "middlemen." They provide private oversight to the project, ensuring compliance so the state doesn't have to. Because of the market discipline imposed in part by syndicators, approximately 35% of all LIHTCs awarded are never redeemed. The state incurs no risk b/c investors provide up-front money and additional capital if the project becomes distressed. If the project doesn't adhere to standards, credits are recaptured.

### But why do we spend so much on this, given other pressing needs like education and healthcare?

LIHTC spending has grown by $144M since 1992. Since 1992, K-12 education spending has risen over $2B from $1.3 billion to nearly $4B; Medicaid spending has seen a similarly large increase. And even the small amount we spend on affordable housing relative to what we spend on K-12 education and healthcare helps us save money in other areas: for instance, children who are safely housed (as opposed to living in unsafe conditions, couchsurfing, or being homeless) are more likely to complete high school and become employed, and people with special needs and seniors living in LIHTC developments with on-site services are less likely to use expensive emergency room care.