

RECORD TYPE: PRESIDENTIAL (TRP NOTES MAIL)

CREATOR: Jonathan Weiss ( CN=Jonathan Weiss/O=OVP [ OVP ] )

CREATION DATE/TIME:12-JAN-1998 10:12:17.00

SUBJECT: DRAFT of Two-Pager on Low-Income Housing Tax Credit Expansion

TO: Jonathan Orszag ( CN=Jonathan Orszag/OU=OPD/O=EOP @ EOP [ OPD ] )

READ:UNKNOWN

TEXT:

looks great -- can you just make sure i'm on the distribution list for

anything on the event. thanks

----- Forwarded by Jonathan Weiss/OVP on 01/12/98 09:15

AM -----

Elizabeth J. Potter

01/12/98 09:09 AM

To: Jonathan Weiss/OVP

cc:

Subject: DRAFT of Two-Pager on Low-Income Housing Tax Credit

Expansion

----- Forwarded by Elizabeth J. Potter/OVP on 01/12/98

08:59 AM -----

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Jonathan Orszag @ EOP

01/11/98 11:00:41 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: DRAFT of Two-Pager on Low-Income Housing Tax Credit

Expansion

Attached is a DRAFT of the press paper for the VP's Chicago event on the low-income housing tax credit expansion. Please provide comments as soon as possible. As soon as I finish editing it, I will also send around a shortened version (2-3 pages) of the press paper on our community empowerment agenda from the POTUS' South Bronx event.

Message Sent

To: \_\_\_\_\_

Elizabeth J. Potter/OVP

Thomas M. Rosshirt/OVP

Paul J. Weinstein Jr./OPD/EOP @ EOP

Emil E. Parker/OPD/EOP @ EOP

Jake Siewert/OPD/EOP @ EOP

Jonathan A. Kaplan/OPD/EOP @ EOP

Eli G. Attie/OVP

Virginia M. Terzano/OVP

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS\_EXT:[ATTACH.D85]ARMSZZ000F2GM.000 to ASCII,  
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

**EXPANDING THE LOW-INCOME HOUSING TAX CREDIT:  
HELPING BUILD MORE AFFORDABLE RENTAL HOUSING IN URBAN AND RURAL COMMUNITIES**  
*January 13, 1998*

Today, Vice-President Gore will announce that the Administration's FY99 Budget includes a major expansion of the Low-Income Housing Tax Credit which will help build more affordable rental housing for low-income Americans. President Clinton and Vice-President Gore call to expand the Low-Income Housing Tax Credit (LIHTC) builds on their successful support to permanently extend the credit in 1993, and is a key part of their agenda to empower communities, encourage the development of more affordable housing, and improve assistance for those with acute housing needs.

- **Increasing the Cap on the LIHTC from \$1.25 Per Capita to \$1.75 Per Capita and Index It To Inflation.** Since its creation in 1986, each state has been provided \$1.25 per capita of housing tax credits to allocate to developers of affordable housing. Even though building costs have increased 40 percent in the last decade, the amount of the credit has not been adjusted for inflation. Therefore, President Clinton and Vice-President Gore will propose to increase the cap on the LIHTC from \$1.25 per capita to \$1.75 per capita — restoring the value of the credit to its 1986 level. To ensure that inflation no longer erodes the value of the credit in the future, the President and Vice President will also propose to index the credit to the rate of inflation. *This proposal will cost \$1.6 billion over five years and is fully paid for in the Clinton-Gore Administration's FY99 budget.*
- **This Expansion Will Help Build An Additional 160,000-180,000 Affordable Housing Units Over the Next Five Years.** Estimates suggest that the LIHTC currently helps build 80,000-90,000 affordable housing units each year. The President and Vice-President's proposal to increase the cap by 40 percent and index it thereafter will mean that an additional 160,000-180,000 quality rental housing units for low-income American families.
- **The Low-Income Housing Tax Credit Works.** Until the LIHTC was made permanent by President Clinton and Vice-President Gore in 1993, it was not working efficiently. With Congress extending the credit for only short periods of time — the credit was set to expire in 1989, then 1990, then 1991, and then 1992 — investors were not always willing to put money down for a long-term chance on low-income housing. Now, with the credit permanent, it is fully utilized: in 1996, 97 percent of the credits were allocated — the remaining were either carried over to 1997 or reallocated among the states.
  - *Chicago Sun-Times, December 21, 1997: "The [Low-Income Housing] tax credit is one of the few Washington success stories. It helps construct new housing for low-income tenants as a public-private partnership... it is exactly the kind of program Americans should be demanding of the federal government."*
- **Expanding the LIHTC Is Necessary To Meet the Demand for the Credit and the Demand for Affordable Housing.** While state housing agencies had \$392 million worth of tax credits to allocate, developers *requested* more than \$1.1 billion in credits in 1996 — that means that demand for the credits exceed supply by nearly 3 times. With such excess demand, an expanded LIHTC is needed. Moreover, there are an estimated 5 million American families

living in inadequate housing. Expanding the LIHTC — along the rest of the Clinton-Gore Administration's agenda to empower communities — helps to address the housing needs of American families.

- **The LIHTC Helps Low-Income Americans.** The LIHTC must help low-income American families: developers have a choice of having either at least 20 percent of their renters have incomes below 50 percent of the area median income or at least 40 percent with incomes below 60 percent of the area median income. According to GAO, about 75 percent of tax credit households met HUD's definition of "very-low income" — that is, their incomes were below 50 percent of the area's median income. Indeed, GAO estimated that the average housing credit renter earns only \$13,300 per year — that's, on average, 37 percent of the area median income. The tax credit helps to lower the cost of rent: the average monthly rent was about \$450 for these households.

### HOW DOES THE LOW-INCOME HOUSING TAX CREDIT WORK?

- ➔ **The Credit Is Administered By The States.** The Low-Income Housing Tax Credit is essentially a block grant to State housing agencies, except for in New York and Chicago where the credit is distributed directly to the city housing agencies. Currently, each state is permitted to allocate a certain amount of tax credits annually based on its population (\$1.25 of credits per capita). Each state devises their own allocation plans, reflecting their housing needs. In nearly all states, demand for the credits far exceeds their supply, thus creating the environment where project sponsors compete against one another to receive them. Each state chooses the projects that most efficiently serve low-income households.
- ➔ **How Are Projects Financed?** A developer usually finances a low-income housing project in part by using a private mortgage, with payments made out of rental revenues, and in part using equity paid into the project from investors who receive the tax credit. Developers "sell" the tax credits to private investors — often organized into partnerships by syndicators such as Local Initiatives Support Coalition (LISC) and Enterprise Foundation — who use the credits to offset their income tax liability. In return for the credits, the private investors provide capital financing for the projects, filling the gap between the development costs and the non-tax credit financing. The equity paid into a project is less than the sum of the tax credits, providing the investors with a rate of return over 10 years.
- ➔ **Using the Tax Credits.** The maximum credit states may award is approximately 9 percent of development costs for new construction (or substantial rehabilitation) or approximately 4 percent for building acquisition and federally subsidized construction and rehabilitation costs. These credits are provided annually for 10 years. Since a dollar saved tomorrow is not as valuable as a dollar saved today, this amounts to 70 percent of the development costs of new rental housing and 30 percent of housing receiving other subsidies or rehabilitation of existing housing in *present value terms*. Each year about \$300 million worth of new credits are available. Since the credits are provided for 10 years, the aggregate annual cost to the Federal government is currently as much as \$3 billion.
- ➔ **Ensuring Compliance.** The LIHTC is a performance-based incentive, because investors can claim the credit only if the housing is built on schedule. Moreover, once housing units have been built, state agencies are responsible for monitoring the projects for compliance with Federal requirements concerning household income, rents, and project habitability. Noncompliance with these requirements may result in tax credit recapture or the denial of previously issued or used credits.

RECORD TYPE: PRESIDENTIAL (TRP NOTES MAIL)

CREATOR: Lotus Pager Gateway ( Lotus Pager Gateway [ UNKNOWN ] )

CREATION DATE/TIME:14-OCT-1998 20:06:22.00

SUBJECT: Re: get LIHTC since they won't give us School Construction (Sent to: BRUCE N. REED [Pager])

TO: Paul J. Weinstein Jr. ( CN=Paul J. Weinstein Jr./OU=OPD/O=EOP @ EOP [ OPD ] )

READ:UNKNOWN

TEXT:

To: BRUCE N. (Pager) #REED

cc:

From: Paul J. Weinstein Jr.

Date: 10/14/1998

Time: 20:04:02

Subject: get LIHTC since they won't give us School Construction

Body:

Priority:

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Message history for recipient BRUCE N. REED [Pager]

Wednesday 14 Oct 1998 20:05:51 Eastern Standard Time - Message received

by Pager Gateway

Wednesday 14 Oct 1998 20:06:00 Eastern Standard Time - Message received

by Paging Service