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Oklahoma's Affordable Housing Act Tax Credit- Economic Impact

Prepared by

Oklahoma Department of Commerce

Research and Economic Analysis Division

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Contents

Overview

Background on Affordable Housing Credit

On June 3, 2014, Governor Mary Fallin signed SB2128 – the Oklahoma Affordable Housing Act that provides for the allocation of $4 million per year in nonrefundable state low-income housing tax credits (68-2357.403). The act, administered by the Oklahoma Housing Finance Agency, dictates that credits are used to:

- Raise private equity to finance affordable housing for families and seniors
- Be used in counties with populations of 150,000 or less
- Provide affordable rent for low-to-moderate-income Oklahomans, typically those earning 60% or less of the Area Median Income

The tax credit is claimed annually over a ten-year period, beginning when the buildings are placed in service. Owners and managers of low-income housing tax credit properties must ensure that residents meet eligibility requirements set forth by federal regulations (Internal Revenue Code Section 42). The tax credits (both state and federal) are subject to recapture if any violations of the eligibility restrictions are discovered. If any portion of the federal tax credits is recaptured, this will trigger recapture of the proportionate amount of the state tax credit.

The Oklahoma Affordable Housing Act is subject to review every five years by a committee of nine. The Governor, the President Pro Tempore of the Oklahoma State Senate and the Speaker of the Oklahoma House of Representatives are each authorized to appoint three members to the committee.

Need

According to the U.S. Department of Housing and Urban Development, families who pay more than 30% of their income for housing are considered cost burdened and may have difficulty affording basic necessities, including clothing, medical care, transportation, and food. According to the National Low Income Housing Coalition's 2018 Out of Reach report, the two-bedroom housing wage in Oklahoma is $15.41 per hour; Oklahoma ranks 43rd for housing costs. A minimum wage worker must work 85 hours per week to afford a modest two-bedroom apartment. According to the 2015 Oklahoma Statewide Housing Needs Assessment:

- Oklahoma is projected to need 7,454 housing units for homeownership for households earning 60% or less of the area median income
- Oklahoma is expected to need 11, 630 housing units for rent for families earning 60% or less of the Area Median Income
- Approximately 40.01% of renters are housing cost overburdened in Oklahoma

Effective, affordable housing policy can encourage the development and preservation of safe, secure and affordable housing for Oklahoma's most vulnerable populations. According to the Oklahoma Statewide Housing Needs Assessment, the absence of affordable housing alternatives across various parts of the state is the most significant threat to homelessness. Although sometimes understated, Point-in-Time data from January 2017 reveals 4,199 homeless persons in Oklahoma, with 2,385 in emergency shelters; 699 in transitional housing; and 1,115 completely unsheltered from the elements and other potential dangers. Despite the progress generated by the Oklahoma Affordable Housing Act, those needs have, so far, gone unmet.

Understanding the cost burden associated accessing affordable housing options, the Oklahoma Coalition for Affordable Housing requested and funded this study from the Oklahoma Department of Commerce. The mission of the Coalition is to lead the movement to ensure all residents of the state of Oklahoma flourish in safe, affordable homes and to help communities develop safe and affordable housing options for all residents. The Coalition brings together a strong combination of organizations, finance professionals, service providers, economic development authorities and individual advocates to provide advocacy, education and practical training to foster the production and maintenance of affordable housing throughout the state.

Recent budget shortfalls have brought the Oklahoma Affordable Housing Act under consideration for termination by the Oklahoma Legislature. Like many of Oklahoma's incentives, this tax credit is performance based. The tax credits cannot be claimed until the buildings are built according to robust guidelines established by the Oklahoma Housing Finance Agency. The properties are 100% occupied by eligible tenants – typically, two years after the first equity is invested. This study will focus on the impacts of the construction activities as well as the impacts of managing and maintaining the housing units in Oklahoma.

This analysis does not consider some of the additional benefits of the Act, such as the value of the reliable and affordable housing options, reduction of homelessness, and more affordable opportunities for the veterans, among other economic and social factors. There are significant social impacts not included in this study that should also be considered when designing, reforming or addressing the effectiveness of each program.

Even without those considerations, the construction and renovation of the 2,007 housing units produced between 2015 through 2018 will provide significant contributions to Oklahoma's state and regional economies. The economic impact represents units built between 2015 and 2018, and is representative of those 36 projects completed during that time. The construction and long-term employment impacts will increase as more projects get funded by the Affordable Housing Act and the amount of incentives will increase along with the increase in eligible investments.

Economic Impact Estimates

Methodology and IMPLAN

IMPLAN software was used to model this Housing Tax Credit economic impact analysis. IMPLAN is an input/output model that helps institutions understand the linkages between industries in the local economy and how policy or changes in industry can influence economic activity in the region. Each industry has different spending patterns and engages with different suppliers at the local level; IMPLAN helps to evaluate the overall effect of those individual industries. In the case of Oklahoma's Affordable Housing Act, the construction activities were captured under three main categories and the ongoing activities were modeled by continued employment directly associated with the level of employment it would take to manage and maintain these types of residential infrastructure.

This economic impact report focuses on the construction and permanent employment activities associated the construction of 36 development projects across Oklahoma. The report does not include new developments that will occur after the current 36 projects. While focusing on construction and permanent employment, this analysis does not consider additional benefits such as:

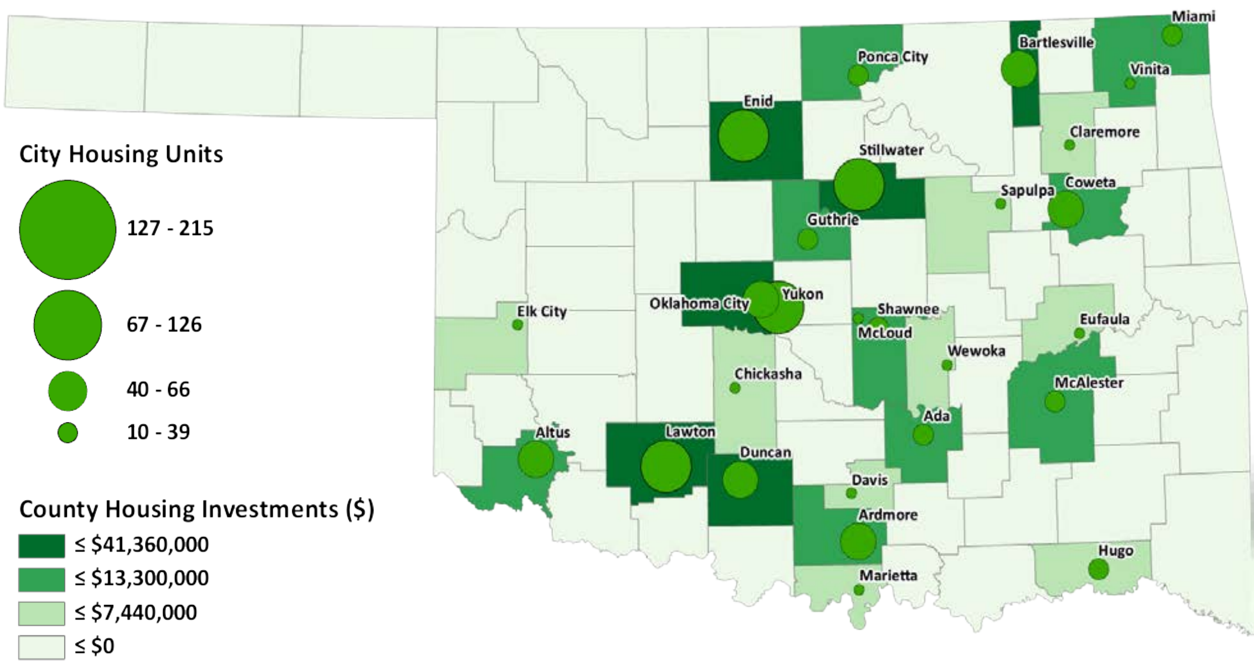
- Reducing Medicaid housing costs as seniors are able to age in place at these developments
- Reducing housing burdens leave families more money to spend on other essentials that are otherwise forgone, such as quality food and childcare
- Stabilizing housing for low income families means children are able to remain in schools consistently, leading to better outcomes for them
- Economic and social benefits of reducing homelessness, and more affordable options for veterans, children and other vulnerable demographics
- Revitalizing properties previously abandoned or severely distressed, and community reinvestment in improvements for sewer, flooding, waste management and other infrastructure
- Increasing tax base from improved valuations of properties and increase in resident population

Construction activities are temporary in nature; however, certain job functions such as maintenance, property management or rental income represent activities that continue from year to year until the residential structure is no longer habitable. Employment associated with the regular operation of the 2,007 multi-family and other residential housing units is assumed to maintain the same level of direct employment over time. Due to intense regulatory scrutiny and significant paperwork needed to keep properties in compliance, it is estimated that 99 FTE jobs would be directly employed to manage and upkeep these types of properties. However, as the number of housing units/development projects increase, so should the number of jobs needed to operate the units and maintain compliance. The categories of construction and employment considered in the model are listed below:

- Multi-Family Residential Construction
- Single-Family Residential Construction
- Residential Construction Rehab/Maintenance
- Regular Employment Associated with Multi-Family Units

The construction and maintenance investments were modeled separately from regular employment operations. Between 2015 and 2018, the Oklahoma Affordable Housing Act has been used to provide financing for 36 projects by development companies. These 36 development projects occurred in 27 communities and counties across Oklahoma and created a direct impact of over $306 million in construction activity used to build 2,007 housing units across Oklahoma. The Oklahoma Housing Finance Agency allocated $15,332,125 in state affordable housing tax credits over this four-year period. Both investment and employment will increase along with incentives as more projects are funded by developers using incentives from the Affordable Housing Act.

The map below gives a snapshot of where these developments spurred by the Oklahoma Affordable Housing Tax Credit have occurred. Investments are being made in city centers of some rural counties, and are used to help revitalize various areas that have been neglected for a long time. Many of these communities also struggle with the attraction of new businesses due to the very limited options available for new housing. These communities also struggle with an aging and obsolete housing stock and find it difficult to support the economics of new market-rate housing.



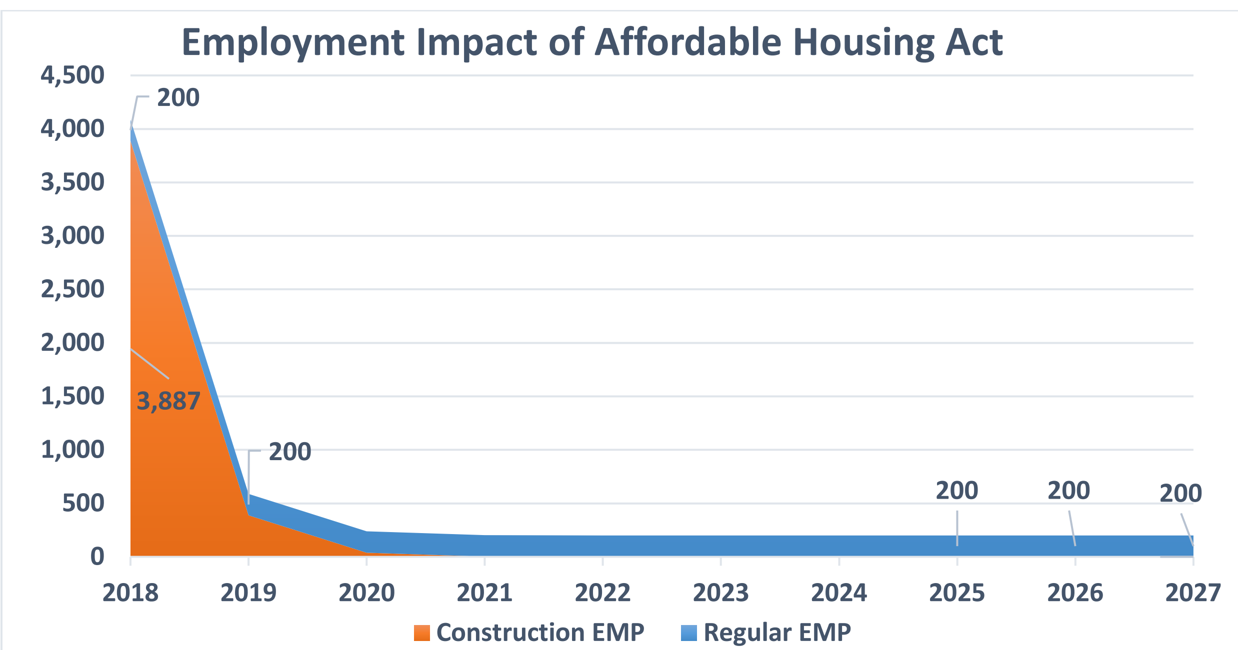
Employment

Employment impacts are not only limited to people directly employed at the multi-family units, but also include the impacts from the indirect and induced employment impacts. The indirect impacts would include goods and services consumed by the unit operators; induced impacts would include household consumption from those directly employed by those managing the properties. Employment impacts also take into consideration the significant amount of construction and maintenance activities associated with single- and multi-family unit construction.

Based on responses from development and property management companies, roughly 99 workers would be needed to manage and maintain the 2,007 units that qualify for the federal incentive. As the number of housing units increase, there would be a proportionate increase in employment to maintain compliance and upkeep of the property. The 99 jobs associated with the normal operations of those leasing offices would then support an additional 101 jobs through:

- Induced impacts spending by regular employees in the local market; and
- Indirect impacts from spending by development and leasing companies with local businesses

The overall impact of normal operations is about 200 jobs. Total investment in construction or maintenance was estimated to be $306.1 million from 2016-2018. In the peak construction year of 2018, close to 3,900 jobs are impacted by the construction of all 2,007 units. After 2018, when construction or maintenance have been completed on the 36 projects, there will be a significant reduction in construction impacts for the following years. By 2021, the overall impact of the 36 projects is conservatively estimated to revert to the 200 jobs from the normal operations of the multi-family units. Direct employment from ongoing operation and the associated impacts will increase as more projects are approved. The overall impact in 2018 is estimate to be over 4,000 jobs from these activities.

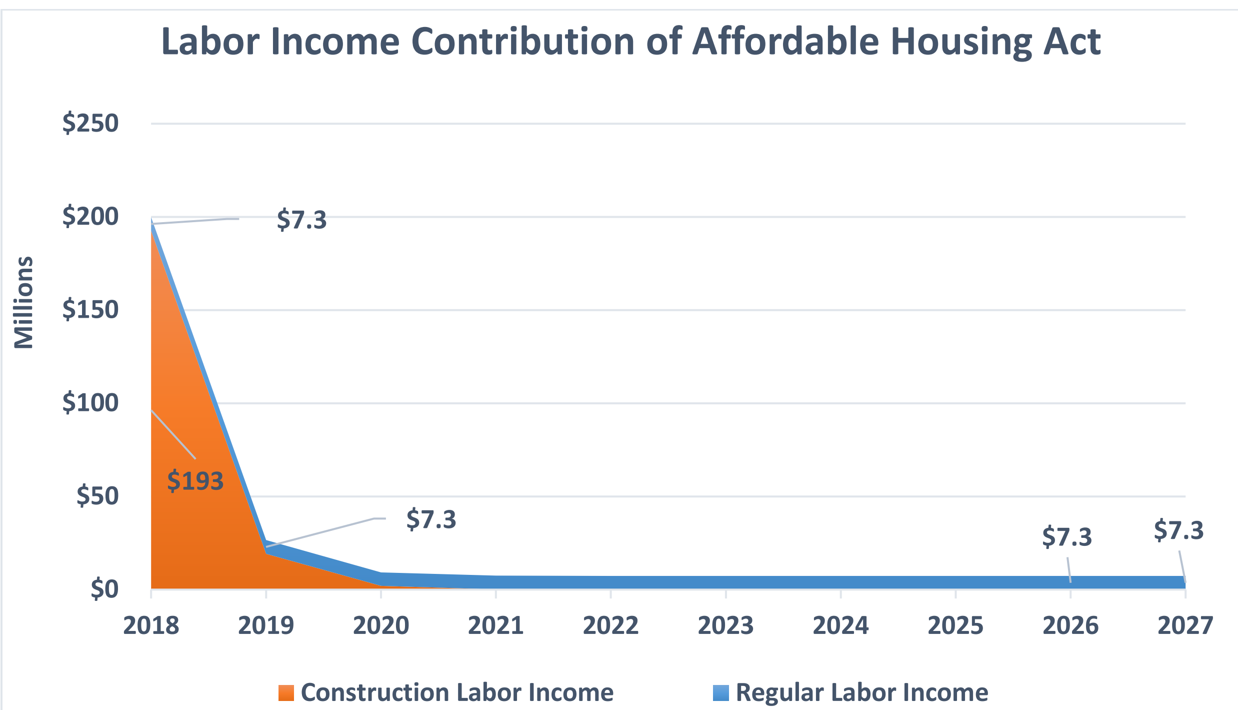


Labor Income

Labor income is the earnings garnered by workers prior to taxes and certain fees; labor income also includes income to sole proprietors that could include contractors. The labor income displayed below is nominal and does not adjust for inflation or the time-value of money.

The roughly 99 jobs employed by developers to manage and maintain the 2,007 units are estimated to directly generate over $3.0 million in labor income from payroll and sole proprietors associated with keeping the units in compliance and maintaining the proper paperwork. As more projects get approved under the Affordable Housing Act, the direct long-term employment and construction impacts will increase, as well. Considering the additional induced effects (employee spending) and the indirect effects (employer spending with suppliers), the total impact on labor income from regular operations is about $7.3 million. When considering the additional labor income from construction activities, the overall labor income contribution from the 36 housing development projects is estimated to be almost $200 million dollars during peak construction in 2018.

When the temporary effects of construction from the 36 projects have faded away, the overall impact on labor income is estimated to revert to $7.3 million annually from regular operations. New developments above the 36 projects will yield additional tax credits and additional labor income from both permanent employment and temporary construction activities.



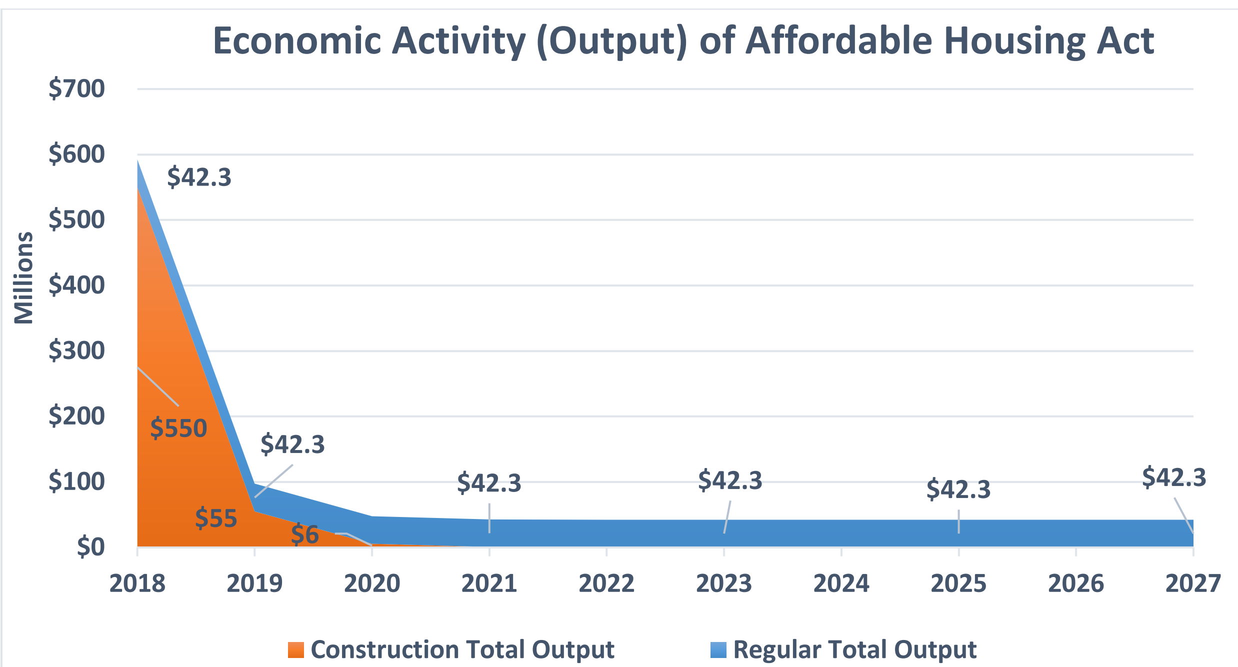
Economic Activity (Output)

Economic output is a measure of the value-added economic activity in the state. This includes the value of intermediary goods along with value-added activities associated with the production of finished goods within the state. As a result of the incentive, over 2,000 housing units were built in 27 communities outside of Cleveland, Oklahoma and Tulsa Counties. While great assets for communities, these activities also create demand for goods and services from local businesses.

The 99 direct jobs estimated to run the newly constructed multi-family units directly generate over $28 million of economic activity in Oklahoma's economy. When considering the induced effects (employee spending) and indirect effects (local purchases by leasing companies), the companies' normal operations contribute over $42 million in economic activity annually. However, as the number of units/development projects increase, so will the annual employment needed to manage and maintain those properties.

When considering the temporary construction or maintenance activities from the 36 development projects between 2015 and 2018, the overall economic contribution from developers and leasing companies is over $575 million. The activities from those 36 developments are represented in the impacts results of 2018. The overall construction or maintenance impact will increase as more housing units are built. Typically, the impact results would correspond with the time period when the actual construction occurs.

When the temporary effects of construction are complete, the annual impact is estimated to revert to over $42 million in economic activity annually.



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United States Department of Housing and Urban Development

United States Bureau of Economic Analysis

United States Bureau of Labor Statistics

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