Oklahoma's Affordable Housing Tax Credit- Economic Impact

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Overview

Background on Housing Credit

On June 3rd, 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 be used to raise private equity to finance affordable housing for families and seniors in counties with relatively small populations of 150,000 or less citizens, as determined by the latest Federal Decennial Census. The act also requires that rents must be affordable to renters of modest incomes, typically defined as an annual salary between $20,000-$30,000. The tax credit is claimed annually over a ten-year period, generally beginning when the building is placed in service. Owners and managers of Affordable Housing Tax Credit properties must ensure that their residents meet eligibility requirements set forth by federal regulations. If any violations of the program's restrictions are discovered, the tax credits are subject to recapture. The governor, president pro tempore of the state Senate, and speaker of the House of Representatives each appoint three members to a committee that reviews the act every five years.

According to the U.S. Department of Housing and Urban Development, families who pay more than 30 percent of their income for housing are considered cost burdened and may have difficulty affording basic necessities, including clothing, medical care, transportation, and food. An estimated 12 million renter and homeowner households pay over 50 percent of their annual incomes for housing, and there is nowhere in the United States where families with just one full-time worker earning the minimum wage can afford the local fair-market rent for a two-bedroom apartment. A recent study from the National Low Income Housing Coalition specifically finds that minimum-wage earners in Oklahoma City must work 85 hours per week to afford a local two-bedroom apartment.

Although certainly understated, Point-in-Time data from January 2015 shows 3,777 homeless persons were in Oklahoma, with 2,309 in emergency shelters and 778 completely unsheltered from the elements and other potential dangers. According to the Oklahoma Housing Needs Assessment, the absence of affordable housing alternatives across various parts of the state is the largest threat to homelessness. The study determined that 2,326 new rental units would be needed statewide annually, but, despite the progress generated by the Oklahoma Affordable Housing Act, those needs have, so far, gone unmet. As the housing tax credit is capped at $4 million annually, only so much can be done towards meeting the state's affordable housing needs. Understanding the severity of these conditions, organizations like Neighborhood Housing Services Oklahoma and Urban League Oklahoma aim to increase access to safe and affordable housing in Oklahoma and help struggling citizens on their path to homeownership. The organizations offer workshops on financial literacy, credit counseling, homebuyer education, and safety and drug awareness, among other topics, and build or rehabilitate both multi- and single-family affordable housing options. The organizations' websites also offer do-it-yourself videos for simple home repairs to empower program participants to handle routine maintenance issues. By using energy-efficient materials in the rehabilitation process, those participating in the Affordable Housing Program are able to recognize long-term savings on utilities and maintenance, as well.

Despite seeming like a win-win situation for both low-income citizens and private industry players, such as the developers, syndicators and investors, there are some who question the effectiveness of the program. Citing a lack of government oversight as the main contributor, some claim that the supposed rising costs of construction have led to higher program costs and fewer housing units produced for those in need. In one documented case in South Florida, developers quoted grossly inflated construction cost numbers to the state to receive a larger sum of money than the housing project required and keep the additional funds. Furthermore, it is expected that this type of corruption is much more widespread than just the one South Florida case. A May 2017 investigation by NPR noted that there have only been seven audits of the 58 state and local housing agencies that the IRS relies on to watch the program since it began in 1986. It also found that only 17 percent of the national housing projects are built in high-opportunity areas, defined as places without excessive crime and with access to jobs and quality schools. Yet, building in these areas is thought to be most beneficial, as it helps children rise out of poverty so that they may not need to rely on government housing help as they transition into adulthood.

With various arguments both for and against the Oklahoma Affordable Housing Act in mind, some argue that the high costs required of taxpayers to provide these low-income units cannot be justified. However, advocates of the program point out that the system gets the most amount of units built for the poor, and that attractive incentives must be provided in order to encourage businesses to participate. As former New York Republican Rep. Rick Lazio says, "Without private capital we would not be modernizing public housing. . . . We've got to be realistic about the fact that investors need some return." Some thus suggest that the program be maintained with the recommendation of increased IRS oversight and audits to ensure the proper utilization of tax credits and cessation of developer theft. This study will focus on the impacts of the construction activities and the impacts of maintaining the housing units in Oklahoma.

Economic Impact Estimates

Methodology and IMPLAN

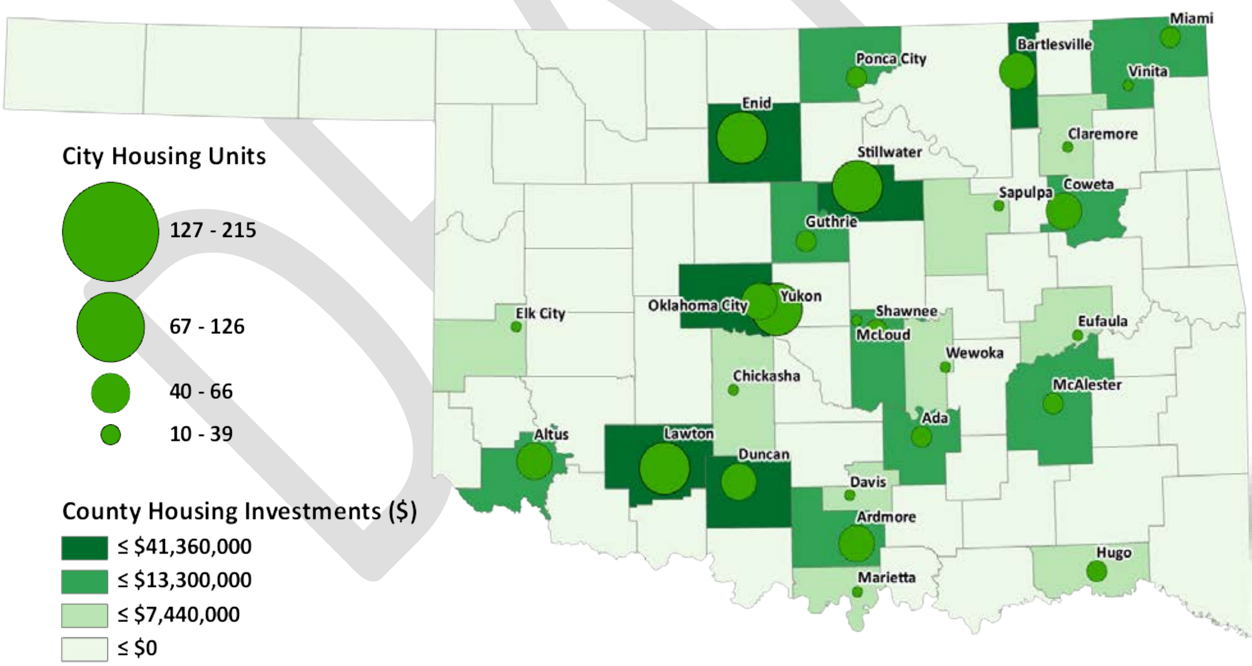
IMPLAN software was used to model this Housing Tax Credit economic impact analysis. IMPLAN is an input/output model that helps institutions understand the linkages between industries in the local economy and how policy or changes in industry can influence economic activity in the region. Each industry 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 Tax Credit, 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.

Construction activities are temporary in nature, while certain job functions such as maintenance, property management or rental income would represent activities that continue from year to year until the residential structure is no longer habitable. Employment associated with the regular operation of multi-family and other residential housing is assumed to maintain the same level of direct employment over time. Due to the 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. 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 owned 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 that was 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.

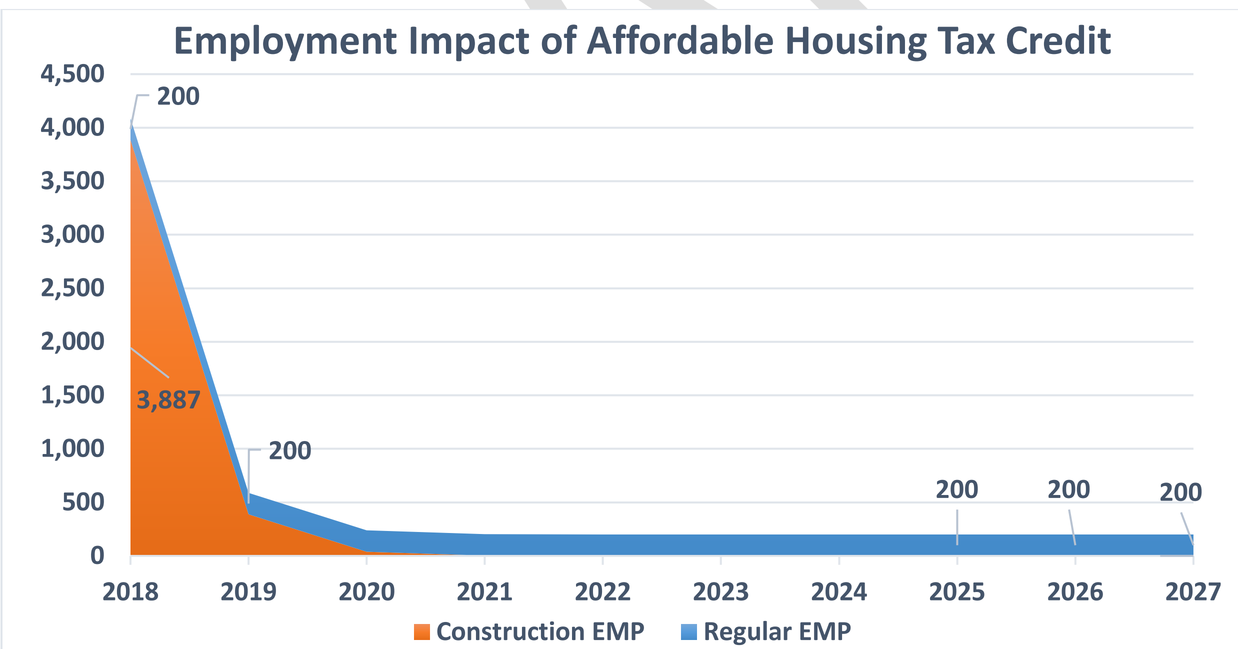
The map below gives a snapshot of where these developments spurred by the Oklahoma Affordable Housing Tax Credit have occurred. Investments are being spurred in city centers of some rural counties, and are used to help revitalize various areas that have been neglected for a long time. Many of these communities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



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 and the 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 that are associated with the single- and multi-family unit construction.

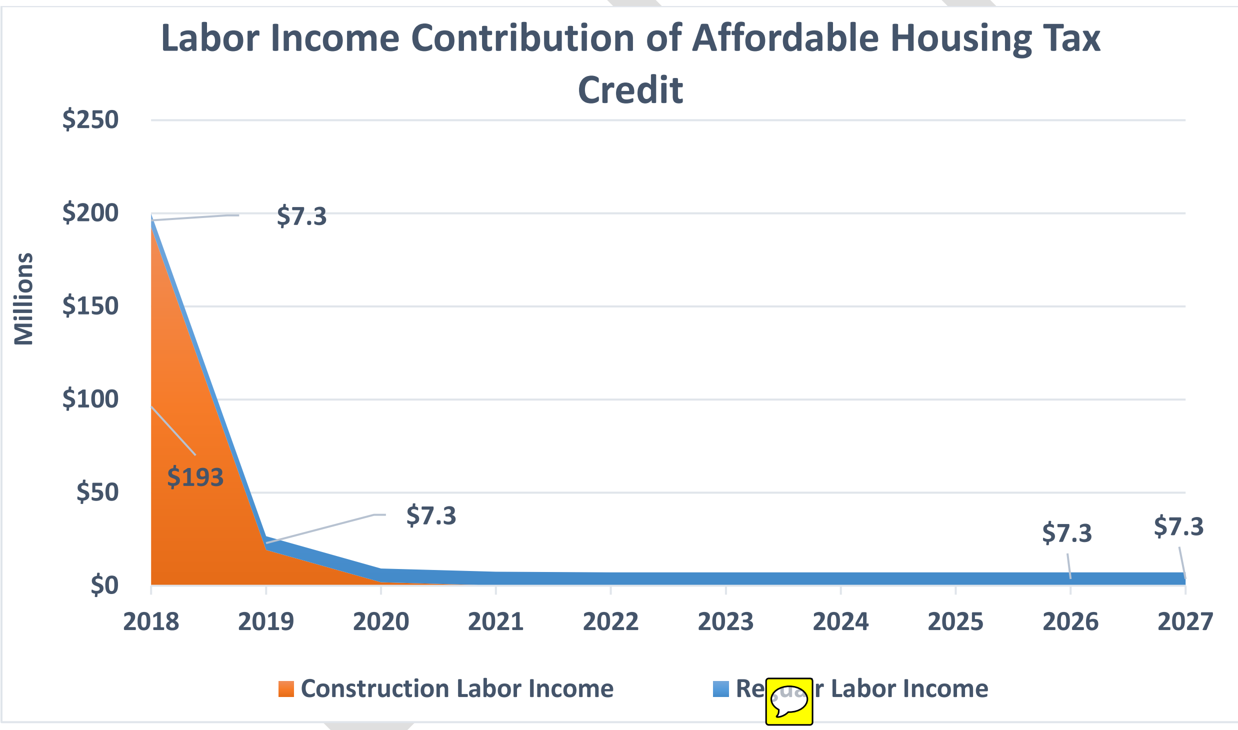
Based on responses from developing and property management companies, roughly 99 workers would be needed to manage and maintain the 2,007 units that qualify for the federal incentive. The normal operations of those leasing offices would then support an additional 101 jobs through induced spending by regular employees in the local market and indirect spending by developers 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 $30[illegible] million from 2016-2018. In the peak construction year of 2018, close to 3,900 jobs are impacted by the construction of all 20[illegible] 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 is conservatively estimated to revert to the 200 jobs from the normal operations of the multi-family units. The overall impact in 2018 is estimate to be over 4,000 jobs.



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.

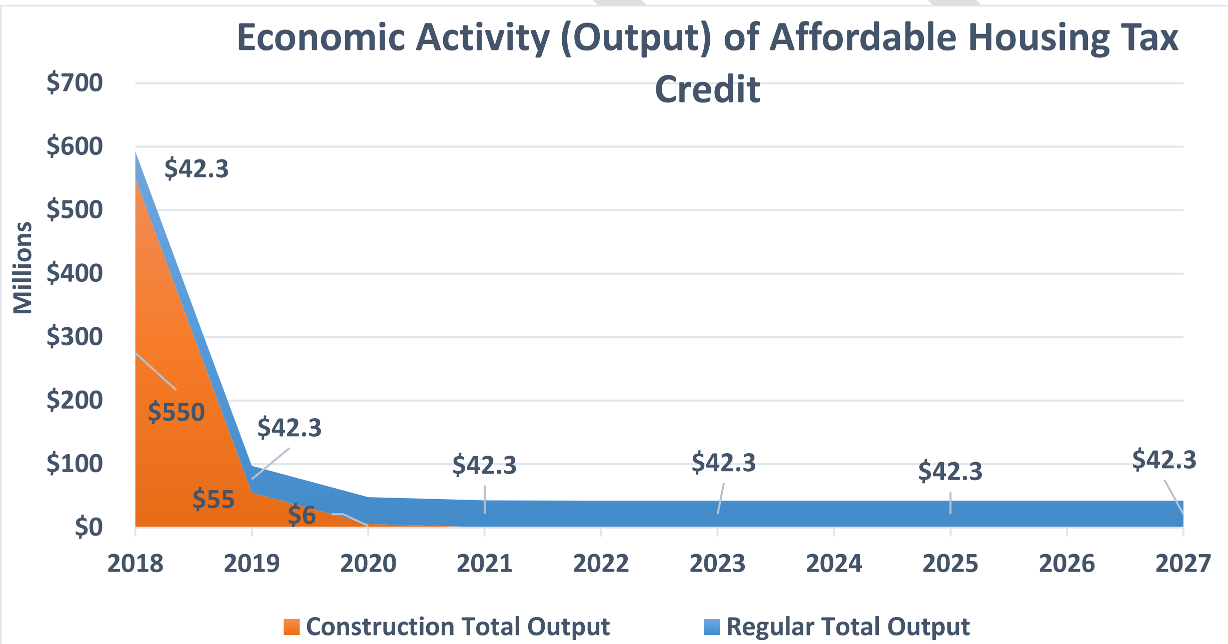
The roughly 99 jobs employed by developers to manage and maintain the 2,007 units are estimated to directly generate over $3.0 million in labor income from payroll and sole proprietors associated with keeping the units in compliance and maintaining the proper paperwork. Considering the additional induced 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 almost $200 million dollars during peak construction in 2018. When the temporary effects of construction from those projects have faded away, the overall impact on labor income is estimated to revert to $7.3 million annually from regular operations.



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 houses were built in 27 communities outside of 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. When considering the impacts from temporary construction or maintenance activities, the overall economic contribution from developers and leasing companies is over $575 million in the peak year of 2018. When the temporary effects of construction are complete, the annual impact is estimated to revert to over $42 million in economic activity annually.



This analysis does not consider some of the additional benefits such as the value of reliable and affordable housing options, reduction of homelessness, and more affordable options for the veterans, among other economic and social factors. There are significant social impacts not included in this study that should also be taken into account when designing, reforming or addressing the effectiveness of each program. The cost of homelessness, abandoned or distressed properties, and the value of improved sewer, flooding, waste management and tax bases to support local property taxes are all potential topics that could be explored to communicate the value of the Oklahoma Affordable Housing Tax Credit. Even without those considerations, the construction and renovation of the 2,007 housing units provide significant contributions to Oklahoma's state and regional economies.

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