

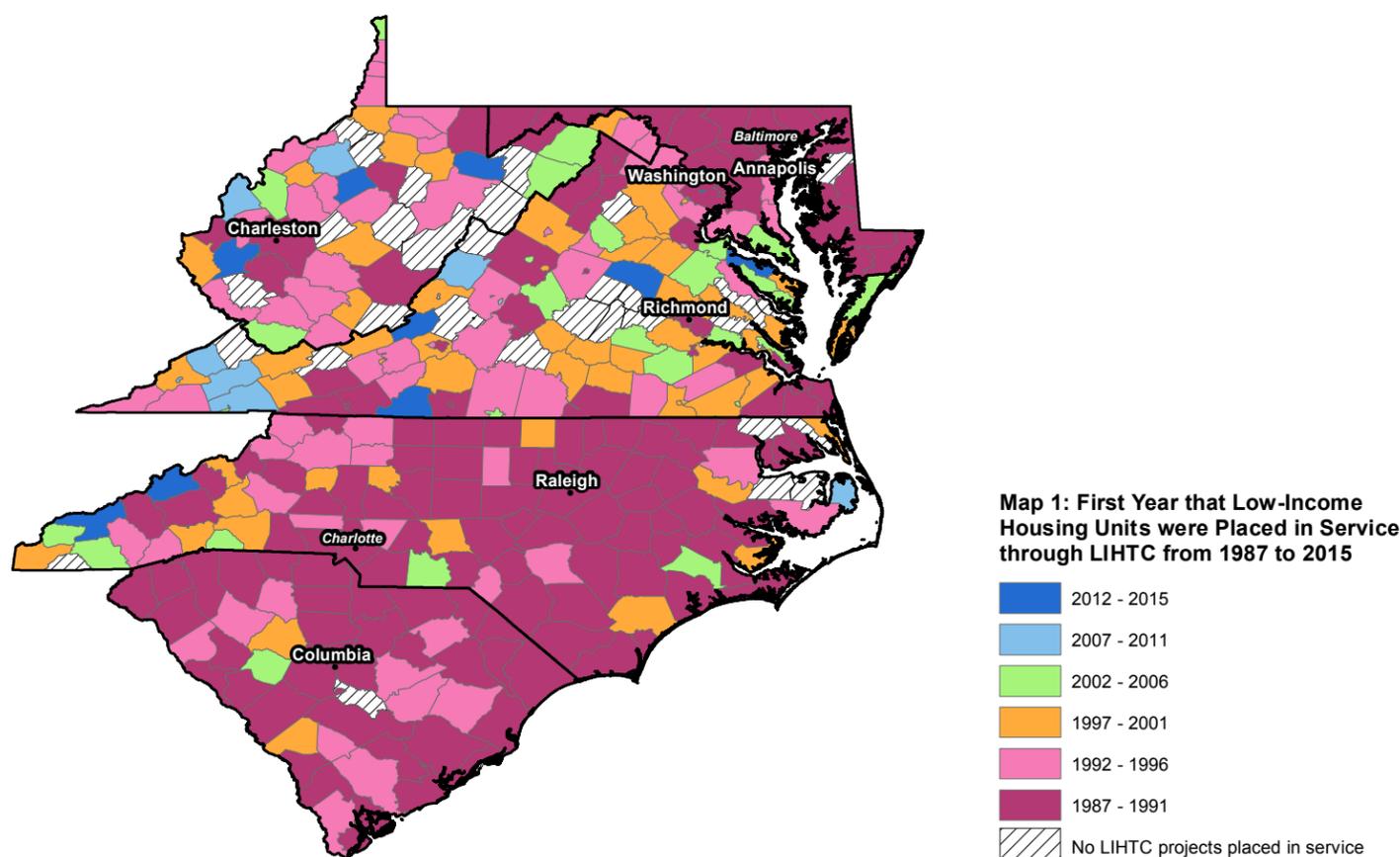
## Low-Income Housing Tax Credit (LIHTC) Use in the Fifth District

This issue of *5th District Footprint* examines how counties and independent cities in the Fifth District use the Low-Income Housing Tax Credit (LIHTC) to produce affordable housing units.<sup>1</sup> LIHTC was created by the Tax Reform Act of 1986 and is the federal government's most extensive affordable housing program.<sup>2</sup> Access to affordable housing is a pressing issue for Fifth District communities according to results from the Richmond Fed's annual Community Pulse survey.<sup>3</sup> When did Fifth District counties and independent cities begin using LIHTC to help address this need? As of May 2017, how many LIHTC-funded low-income housing units were located in each Fifth District county and independent city?

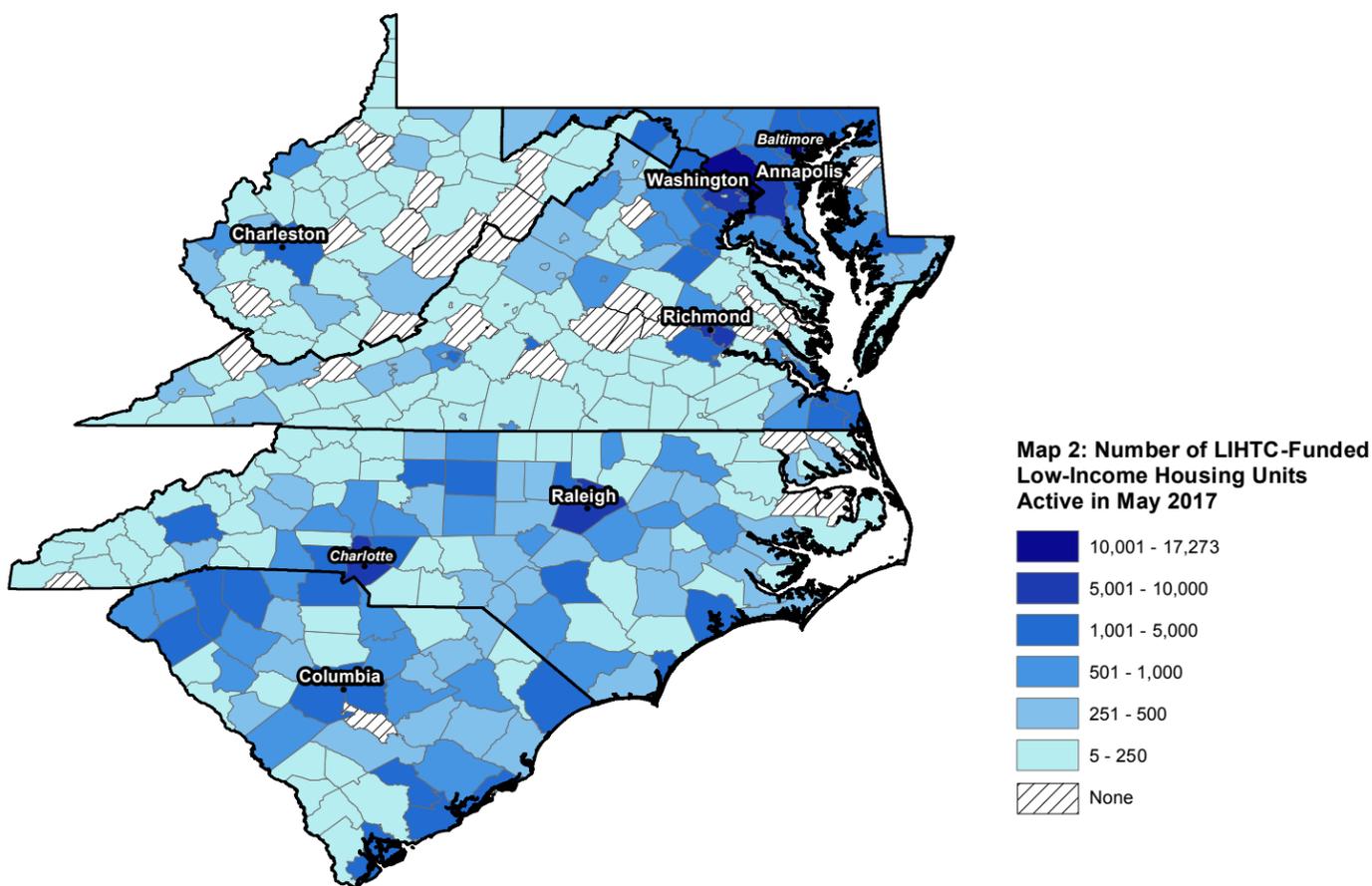
Through LIHTC, the Internal Revenue Service allocates funding to each state on a per capita basis. State housing agencies use this funding to provide a tax credit to private developers who agree to rent a specified number of units to qualified residents at below-market rents for a 15- to 30-year compliance period.<sup>4</sup> Developers then transfer their awarded tax credits to investors in exchange for the capital needed to complete construction or renovation. LIHTCs are competitively allocated at either four or nine percent of a development's eligible basis.<sup>5</sup> Each state has a qualified allocation plan (QAP) that defines specific allocation criteria and prioritizes geographic areas for the creation of affordable housing. Since the program's inception, LIHTC has subsidized the production of nearly 3 million housing units nationwide.

Within the Fifth District, Maryland, North Carolina and South Carolina were relatively early implementers of LIHTC, as shown in Map 1. More than 50 percent of the counties in these states placed low-income housing units in service during the first five years of the LIHTC program (79.1 percent, 59.0 percent and 69.6 percent, respectively).<sup>6</sup> Similarly, the District of Columbia began placing LIHTC-funded low-income housing units in service in 1988. In the LIHTC program's first five years, 28.9 percent of Virginia counties and independent cities and 15.6 percent of West Virginia counties placed low-income housing units in service. As of May 2017, there were 227,640 active LIHTC-funded low-income housing units in the Fifth District.<sup>7</sup> Virginia had the largest number with 71,217 units and West Virginia had the smallest with 9,179 units (see Map 2).

Ninety percent of the 359 counties and independent cities in the Fifth District have placed LIHTC-funded low-income housing units in service since the LIHTC program began. The District of Columbia and the City of Baltimore, Maryland had the largest number of active LIHTC-funded low-income housing units in May 2017 with 17,273 units and 10,690 units, respectively. Of the counties with active units, six counties had fewer than 20 units.<sup>8</sup>



Source: U.S. Department of Housing and Urban Development, Low-Income Housing Tax Credit (LIHTC) Database, 1987-2015.



Source: National Housing Preservation Database, Low-Income Housing Tax Credit (LIHTC) Active Housing Units, May 2017.

Despite the number of active LIHTC-funded low-income housing units in the Fifth District, LIHTC does not fully address a community's affordable housing need. For example, a 2015 affordable housing needs assessment completed by the Urban

[richmondfed.org/publications/community\\_development](http://richmondfed.org/publications/community_development)

Institute for the District of Columbia Office of the Deputy Mayor for Planning and Economic Development estimated that by 2020 there will be between 22,100 and 33,100 more low-income households in the District of Columbia than low-income housing units available.<sup>9</sup>

1 A housing unit is the living space for one household (e.g. one apartment or single-family house).  
2 "Overview of the Low Income Housing Tax Credit Program (LIHTC)," National Housing Law Project.  
3 The federal government defines affordable housing as costing less than or equal to 30 percent of household income. However, households may choose to spend more than 30 percent of their household income on housing costs depending on personal preference for housing quality, location or other characteristics. *Community Pulse*, Federal Reserve Bank of Richmond, 2013-2016.  
4 Below-market rents must be at or below 30 percent of the area median income (AMI). All LIHTC-funded properties developed from 1987 to 1989 were subject to a 15-year compliance period. The Revenue Reconciliation Act (1989) extended the compliance period from 15 years to 30 years, but instituted a policy mechanism that allows developers to exit the LIHTC program after 15 years. "Overview of the Low Income Housing Tax Credit Program (LIHTC)," National Housing Law Project.  
5 The eligible basis is the sum of costs on which the calculation of tax credits is based. Eligible basis includes the cost of acquiring existing buildings, construction

and/or rehabilitation, but does not include land, financing fees, syndication costs or reserves. "HOME and the Low-Income Housing Tax Credit Guidebook," U.S. Department of Housing and Urban Development.  
6 The first five years of the LIHTC program are January 1, 1987 to December 31, 1991.  
7 Data on active LIHTC units primarily comes from tracking at the state and local level, and as a result, there may be incomplete information on a unit's national subsidy status. For the purpose of calculating if a project is active, the National Housing Preservation Database assumes that LIHTC subsidies have a 15-year use period. If a LIHTC subsidy is still listed as programmatic in HUD's LIHTC Database after this use period, it is assumed to have entered an extended use contract and 15 additional years are added to the subsidy end date. *National Housing Preservation Database*, Low-Income Housing Tax Credit Active Housing Units, May 2017.  
8 These counties are Logan County, West Virginia, Hyde County, North Carolina and Amelia, Greene, Madison and Caroline Counties, Virginia.  
9 "Affordable Housing Needs Assessment for the District of Columbia," Urban Institute, May 2015.