Eliminating Bonds Would Slash Affordable Housing.

Housing advocates say the loss of PABs would devastate LIHTC production by half.

The proposed elimination of private-activity bonds (PABs) would devastate the production and preservation of affordable housing across the country.

Roughly half of all low-income housing tax credit (LIHTC) developments utilize tax-exempt bonds and 4% credits, and losing the use of the bond program could mean roughly 60,000 fewer affordable homes are built or rehabilitated each year, estimate authorities.

Although the Republican House tax reform plan maintains the LIHTC program, the initial Nov. 2 proposal repeals PABs, which are used in conjunction with the 4% housing credit. The plan also seeks to lower the corporate tax rate from 35% to 20%, another move that could significantly reduce LIHTC investment.

"What the private-activity bonds provide is both reasonably priced construction and permanent financing, but they also come with the as-of-right 4% LIHTC," says Rafael Cestero, CEO and president of the Community Preservation Corp. (CPC), a nonprofit affordable housing and community revitalization finance company based in New York City.

Approximately 50,000 to 60,000 affordable homes are produced with bond-financed 4% credits each year, reports the National Council of State Housing Agencies. Multifamily bonds without credit financing produce about another 10,000 affordable rental homes per year.

As a result, the repeal of tax-exempt bonds could mean the loss of more than 500,000 affordable homes over 10 years.

Novogradac & Co. estimates that all the different measures in the House tax reform legislation would reduce the total amount of LIHTC-financed affordable rental homes by nearly one million over 10 years.

"It would be a catastrophe," says Bob Moss, principal and national director of governmental affairs at CohnReznick, a national accounting and advisory firm. "In New York alone, housing advocates project that [the state] will lose $4.5 billion in affordable housing investment, 17,000 affordable homes, and 28,000 jobs annually. The national impact of losing 50% of production is devastating, at a time when an estimated 25 million Americans are paying more than 50% of their monthly income in rent. It also eliminates a major tool for rebuilding in disaster-affected areas."

In California, 4% LIHTC and tax-exempt bond financing was awarded to 182 developments with 19,418 affordable units last year.

In addition, PABs are used to create affordable homeownership opportunities for low- and moderate-income families, says Cestero, estimating that about 2,000 families in New York would not receive the long-term financing needed each year for their homes.

Prior to joining CPC, Cestero served as commissioner of the New York City Department of Housing Preservation and Development, the largest municipal affordable housing development and maintenance code enforcement agency in the nation.

“When the bill writers said, ‘Let’s get rid of private-activity bonds and keep the LIHTC,’ they didn’t understand they would be shutting down about 40% of affordable housing production,” says R. Lee Harris, president and CEO of Cohen-Esrey, a Kansas-based developer. “It was an unintended consequence.”

If the lawmakers truly want to get rid of private-activity bonds, they will come up with another way to deliver 4% LIHTCs, he says.

Other housing leaders were also quick to point out the impact of repealing the bond program.

“The proposed elimination of private-activity bonds jeopardizes the unprecedented commitment of Gov. Cuomo to provide safe affordable housing and combat homelessness across New York state,” says RuthAnne Visnauskas, commissioner of New York State Homes and Community Renewal (HCR). “You can’t take private-activity bonds and the tens of billions of dollars in private investment that they leverage out of New York’s economy without negatively affecting our seniors, our veterans, and our rural and urban communities.

Since 2011, HCR has issued over $10.9 billion in low-cost tax-exempt bonds and leveraged another $13 billion in private capital to create and preserve more than 33,000 affordable multifamily units and finance affordable mortgages for more than 9,800 homeowners, according to Visnauskas.

“The current proposal to eliminate tax-exempt private-activity bonds would raise financing costs and devastate the housing market in nearly every community in New York state,” she says. “We are continuing to work closely with our congressional delegation to protect this critical federal investment in affordable housing.”

The House will begin its markup of the legislation known as the Tax Cuts and Jobs Act, and the Senate still has to release its version.

Advocates are urging affordable housing supporters to contact their members of Congress to support multifamily housing bonds.

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