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House Tax Plan Faces Bipartisan Backlash Over Repeal of Development Incentives.

Local officials say private activity bonds needed for affordable housing

The grand opening Wednesday of Archer Park, an affordable housing complex of 190 units in a long-troubled neighborhood of Southeast Washington, had the trappings of similar ceremonies in the past.

But along with oversized ribbon-cutting scissors and celebratory speeches, the gathering had something less typical: An undertone of alarm over looming changes to the federal tax code that D.C. officials say would make developments like Archer Park impossible.

The development's solar-paneled roof and immaculate workout room have replaced what was once a set of squat brick buildings that hosted an open-air drug market — but only with help from a system of tax-exempt financing that would be eliminated in House Republicans' proposed tax overhaul.

The funding mechanism, known as private activity bonds, is one of several common tools of municipal finance that would be repealed under the House tax plan, which is expected to come to a vote this week. The Senate plan, by contrast, would preserve most of those tools.

Like much of the machinery of government, the provisions in question are esoteric and scarcely noticed when working as intended. But threats to eliminate them have stirred a backlash among local officials, who say they're needed to fund housing and infrastructure projects that would not otherwise be commercially viable.

The debate stretches far beyond the Beltway and, unlike the parallel discussion over whether to preserve the federal deduction for state and local taxes, is largely absent of a partisan tint.

Instead, city, county and state officials say the funding tools — which also include tax credits for revamping historic buildings and the New Markets Tax Credit, which lures developers to poor neighborhoods — are equally important in urban, rural, red and blue parts of the country.

"This is not a political issue," said Richard C. David, the Republican mayor of Binghamton, N.Y. He said he worries in particular about the loss of the Historic Tax Credit, which he said is vital for transforming aging buildings downtown in his city of 46,000.

Among the current projects that rely on such tax credits, he said, is the redevelopment of a public library into a culinary arts center by SUNY Broome Community College.

"I could give you a dozen buildings in downtown Binghamton that I think are going to be stagnant without the Historic Tax Credit," David said. The proposed elimination of those and other tax credits "shows a disconnect" in Congressional leaders' understanding of local government needs, he said.

That sentiment was echoed by Matthew Chase, executive director of the National Association of

Counties, who said many of the local officials he represents have been baffled and upset by proposals in the House plan to remove the private activity bonds and assorted tax credits for government-backed development.

“They’re extremely disappointed that at a time when the White House is focusing on infrastructure, they’re attacking the top tools that we use for economic development and infrastructure,” he said. “I think there was a clear lack of awareness on what these bond provisions fund. They are starving our financing for airports, ports and affordable housing, at a time when this country needs to be investing in all of them.”

Arguing in favor of the tax bill on the House floor Wednesday evening, Rep. Kevin Brady (R-Tex.), chairman of the House Ways and Means Committee, said reform was needed because the current system has “trillions of dollars in carve outs and loopholes” for “special interests.”

Lauren Blair Aronson, spokeswoman for the committee, said in a written statement that the tax bill “will continue to help state and local governments finance important public works projects” by maintaining the tax-exempt status of municipal bonds for those projects. The bill would “deliver greater accountability to taxpayers by removing this special status for private activity bonds, which directly benefit private individuals and entities,” she said.

Officials in cities struggling with a high cost of living say private activity bonds are especially important for encouraging private-sector developers to build affordable housing.

D.C. Mayor Muriel E. Bowser (D) says approximately 9,000 units of affordable housing have been created in the District since 2010 using private activity bonds.

In New York City, the loss of private activity bonds would threaten $2.6 billion annually in funding for affordable housing, an amount that translates into thousands of units per year, said Freddi Goldstein, a spokeswoman for Mayor Bill de Blasio (D).

Todd A. Lee, executive director of the D.C. Housing Finance Agency, said the tax-exempt bonds — which effectively allow developers to borrow at municipalities’ low interest rates — are important both by themselves and because their use can make projects available for a 4-percent tax credit for low-income housing. Combined, those breaks can bring private investment to low-return projects that would otherwise never get off the ground, he said.

“These 190 units would not be here but for the 4-percent tax credit,” said W. Christopher Smith, chairman and chief executive of WC Smith, the real-estate company that developed Archer Park. Speaking after the opening ceremony for the complex, Smith estimated that half of his colleagues who build affordable housing are unworried by the House plan, confident that “there’s no way” Congress would remove private activity bonds.

“The other half are just scared to death,” he said.

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