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Statement of
Enterprise Community Partners
for the Record

House Ways and Means Committee
Subcommittee on Select Revenue Measures
Hearing on Certain Expiring Tax Provisions
April 26, 2012

Chairman Tiberi, Ranking Member Neal, and Members of the Subcommittee:

Thank you for holding this important hearing on the value that tax extenders provide to American people and low-income communities across the nation. Many of the expired and expiring tax provisions are crucial to the economy and facilitate the availability to private capital to create new, good-paying, long-lasting jobs in the communities that need them.

At Enterprise, we create opportunity for low- and moderate-income people through affordable housing and diverse, thriving communities. For housing to be a springboard to a good life, it must exist in a supportive living environment with jobs, quality schools, child care, transportation, health care and support for seniors, with access to services that support a healthy lifestyle. Enterprise develops and preserves affordable housing in communities linking people to opportunities for success. When these links are absent, Enterprise forms public-private partnerships and bridges gaps toward creating more vibrant places for people to live and pursue their dreams. Since 1982, Enterprise has raised and invested more than $11 billion to help finance more than 300,000 affordable rental and for-sale homes to create vital communities and more than 410,000 jobs nationwide.

Two of the most important tools Enterprise and many other housing and community development organizations depend upon to create successful, vibrant communities are the New Markets Tax Credit, which expired at the end of 2011, and the Low Income Housing Tax Credit, a provision of which has effectively expired for many areas of the nation. We urge the committee to support extending these expiring provisions.

The New Markets Tax Credit (NMTC) provided a 39 percent credit over seven years for investment in economically distressed communities. Taxpayers made investments in Community Development Entities (CDEs) that must have a track record in community development and have established community accountability mechanisms. An example of a CDE is a community development corporation, CDFI or loan fund or private financial institution. The CDEs use the capital from those investments to make loans or investments in businesses located in economically distressed communities. The NMTC is an extraordinarily flexible financing tool, providing key low-cost capital to retail centers, factories, job training centers, small businesses, charter schools, and health centers. Such variety is due to the flexibility of the tax credit in allowing local market forces and community input to decide which projects and businesses are financed, so long as the project meets the basic criteria of being located in an economically distressed census tract, with the intention of spurring economic growth, creating local jobs, and improving struggling communities.

The NMTC program is among the Top 25 programs given the prestigious "Innovations in American Government Award," administered by Harvard University. That recognition is due in large part to the very successful public-private partnerships where private sector financing is brought to bear to bring community benefits to underserved low-income communities.

And these investments would not have been made without the NMTC. In 2007, the U.S. Government Accountability Office surveyed investors and reported that 88 percent indicated they would not have made the investment without the NMTC and almost two-thirds said they increased their investments in low-income communities because of the Credit.

What makes this credit so cost-effective for taxpayers is the extraordinary amount of private capital that is unlocked through the initiative. According to data from the Treasury Department, for every one dollar of federal investment, $8 of private capital is leveraged.

In addition to this record of achievement, the NMTC enjoys a long history of bipartisan support. Inspired by Jack Kemp, the credit was authorized by the Community Renewal Tax Relief Act of 2000, approved by a Republican Congress, and signed into law by President Clinton. It was implemented and strongly supported by President George W. Bush. A Republican Congress authorized a special $1 billion NMTC allocation in 2005. After it expired for the first time, it has been extended three times—in 2008, 2009, and 2010—with strong bipartisan support.

In the 112th Congress, 64 House members, including 14 on the Ways & Means Committee, have already cosponsored H.R. 2655 (New Markets Tax Credit Extension Act of 2011), which seeks a five-year extension of the credit. A companion bill in the Senate, S. 996, also enjoys the bipartisan support of 24 senators. Enterprise fully supports these bills, but also believes the program would be even more successful if the NMTC were made a permanent part of the Internal Revenue Code through comprehensive tax reform.

Indeed, as, Chairman Tiberi in his opening statement, "*with a few exceptions, temporary tax provisions that are worthy should be made permanent*." We strongly believe the NMTC is a perfect example of a temporary provision that, if made permanent, would result in an even more successful program.

Like the NMTC, the Low Income Housing Tax Credit (Housing Credit) is another example of a very successful public-private partnership. Since its inception as part of the Tax Reform Act of 1986, and signed into law by President Reagan, it has become the nation's most successful affordable housing production and preservation tool, financing more than 2.5 million affordable rental homes, creating almost 3 million largely small business jobs, and leveraging more than $75 billion in private investment capital through public-private partnerships.

The Housing Credit is vital to the creation and preservation of affordable housing in every state in the Union. According to the National Council of State Housing Agencies (NCSHA), approximately 90 percent of all affordable rental housing produced annually is financed through the Housing Credit, and in 2010, half of all multifamily starts were financed by the Housing Credit according to the National Association of Home Builders (NAHB). In a typical recent year, the Credit finances the production of 100,000-120,000 affordable homes, supports about 95,000 jobs, and adds

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approximately $1.5 billion in taxes and other revenues to local economies, according to NAHB. Housing Credit properties are very well managed, with an extremely low foreclosure rate of 0.62 percent over its 26-year history, according to the Reznick Group.

While the Credit is responsible for this impressive record of achievement, the need for affordable rental housing is acute and growing. Renters are constrained by a lack of income growth, and as more people to decide to rent, there has not been an accompanying increase in the supply of affordable apartments. Harvard's Joint Center for Housing Studies recently documented an affordability crisis: 49 percent of renters in 2009 were at least moderately cost-burdened and 26 percent were severely cost-burdened. Furthermore, Harvard determined there is a gap of 6.4 million apartments between the low-income families seeking for housing and the inventory of homes affordable and available to them. In the types of jobs currently hiring new workers, four out of the five most prevalent jobs do not pay workers enough to afford to rent or buy housing at typical prices nationwide, according to the Center for Housing Policy.

Although the Housing Credit as a whole is a permanent part of the Code, the Housing and Economic Recovery Act of 2008 (HERA) created a temporary minimum credit percentage for non-federally subsidized new buildings at 9 percent provided they are placed in service before the end of 2013. While the credit floor technically does not expire until December 2013 and we understand the hearing only addressed tax provisions expiring in 2011 and 2012, we believe that it should be considered because the usefulness of the credit floor for purposes of financing new affordable rental housing communities essentially expired in early 2012. It typically takes 18-24 months from the moment a developer is awarded Housing Credits from the state allocating agency to the completion and lease-up of a finished apartment building.

When HERA established the temporary minimum credit rate, it eliminated the uncertainty of the previous "floating rate" system and helped fill the funding gaps by providing more private equity to any one particular property. The extension of the credit floor, or better yet, a permanent minimum credit percentage, would continue to stabilize the affordable apartment market and promote it as a financially stable industry in which to invest. In addition, the administration of the continued credit floor does not involve any additional government oversight and would thus cost little for the government to execute. Furthermore, because the Housing Credit is capped in every state, the credit floor does not add any additional costs. Lastly, if a allocating agency deemed that a project needed fewer Housing Credits, it has the ability to limit the amount of Credits flowing to a property or provide preferences to those projects that do so on their own. For these reasons, we believe it is important to extend or make permanent the credit floor especially in these difficult times for affordable housing.

If the credit floor is not extended, Housing Credit-financed properties could lose 15 – 20 percent of the private equity it could have otherwise received for Housing Credit allocations starting this year. This would likely have a negative impact on the number of families served, and the types of affordable rental housing developments that are financed.

Fortunately, 38 House members, led by Chairman Tiberi and Ranking Member Neal and including 15 on the Ways & Means Committee, have already cosponsored H.R. 3661 which would extend the credit floor. A companion bill in the Senate, S. 1989, also enjoys the bipartisan support of 15 senators.

Again, we thank you for holding this hearing and look forward to working with you and the subcommittee members to enact an extension of these tax provisions this year.

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