2017

INTRODUCTION

What is NDC?

The National Development Council ("NDC") is one of the most experienced and innovative national nonprofit community and economic development organizations in the United States. From its inception in 1969, NDC operated with a singular purpose of: *"increasing the flow of capital for investment, jobs and community development to underserved urban and rural areas across the country*." NDC continues in the forefront of community revitalization policy, sharing our expertise with thousands of communities in every one of the 50 states and Puerto Rico. In addition to countless local projects and programs NDC's involvement benefits, the National Development Council financed and developed *8,600* affordable housing units in *29* states, leveraged *$1.7 billion* in New Markets Tax Credit supported investment in low income neighborhoods, created the American Model of public private partnerships to develop infrastructure valued at over *$2.5 billion* including *3.5 million square feet* of essential municipal buildings and *7,800* structured parking spaces, loaned *$176 million* to *490 small business* borrowers located in predominantly low income communities nation-wide, and provided classroom and onsite training to over *70,000* housing and community development practitioners. The combination of training and technical assistance enabled our community partners to overcome negative market factors that traditionally stifle investment in America's poorest neighborhoods.

A. STRATEGIES FOR INVESTING IN COMMUNITIES

I. Tax-Exempt Municipal Bonds

The tax reform debate must recognize the critical need to preserve the tax exemption for interest earned on municipal bonds. This centuries old tax exemption is a critical tool for state and local governments seeking to finance the construction of our nation's core infrastructure. Municipal bonds finance roads, highways, and bridges; public transportation; seaports and marine terminals; airports; water and wastewater facilities; schools; acute care hospitals; multi-family housing; libraries; parks; town halls; electric power and natural gas facilities; and other public projects. Tax-exempt municipal bonds financed more than $1.7 trillion in new infrastructure investments in the last decade.

Qualified private activity bonds are a category of municipal bonds that finance specific qualifying asset classes, as well as state-based student loan programs and mortgage assistance programs. Interest on qualified private activity bonds is exempt from the federal income tax, but subject to the Alternative Minimum Tax.

NDC's Use of Tax-Exempt Bonds

NDC uses tax-exempt bonds to finance privately delivered, but publically owned buildings, roads and municipal utilities in partnership with local communities and universities. Using the "American Model", an innovative approach to Public Private Partnerships, NDC combines tax-exempt financing with private sector design, construction and management efficiency. All 40 projects sponsored by NDC were delivered on time at or under budget.

For example, in the face of increased traffic along their boardwalk, the City of Daytona Beach and Volusia County proposed constructing a 1,500 space parking garage adjacent to the County Ocean Center. City and County officials wanted to build an intermodal facility that would also remove parking from another environmentally sensitive area of the beach. After exploring various ownership and financing options available, the County, acting in its interest and on behalf of the City, partnered with NDC to design, finance and construct the new parking garage and intermodal transportation center.

NDC delivered this $17 million project ahead of schedule and on budget. This creative public-private partnership, which included a private development and construction partner and the use of Tax-Exempt 501(c)(3) bonds, lowered the cost of capital, versus the private financing proposed by other development teams.

Policy Recommendations for Municipal Bonds

Maintain the federal tax exemption on municipal bond interest. Proposals to reduce, repeal or limit the tax exemption on municipal bonds would have a severely detrimental impact on the replacement and expansion of the nation's infrastructure, destroy the highly efficient municipal bond marketplace, and raise the cost for state and local borrowers. Proposals to tax municipal bond interest, in whole or in part, would also introduce uncertainty into the municipal market, causing investors to fear additional federal intervention in the market where none has existed for the past 100 years.

Furthermore, capping or eliminating the exemption on municipal bond interest will adversely impact job creation. A recent IHS Global Insight report estimates that proposals to replace the exemption with a *28* percent cap on investor deductions would result in the loss of almost *312,000 jobs* annually and *$24.7 billion* in Gross Domestic Product (GDP). The report also estimates that full repeal of the exemption would result in the loss of nearly *892,000 jobs* annually and *$70.7 billion in GDP*.

State and local governments use municipal bonds to finance the construction of the majority of our nation's core infrastructure.[1] Proposals to eliminate or reduce the deduction for interest earned from municipal bond investments focus solely on federal tax revenues to be raised by such proposals, ignoring almost entirely the potential effect on state and local governments and, so, state and local residents. Had municipal bond interest been subject to federal income tax, the $1.65 trillion in new infrastructure projects financed from 2003 to 2012 would have cost state and local governments an additional $495 billion in interest expense. Any reduction of the interest exemption will create pressure to raise local taxes to cover the cost.

NDC encourages federal policymakers to continue the partnership with state and local government and resist any efforts to shift the cost burden for infrastructure from the federal government to state and local governments. After all every American taxpayer lives in a local community and will bear the burden of cost shifting.

II. HUD Section 108

This program drives investment decision making to the local level and can be a tool to invest in local infrastructure. The Section 108 Program allows grantees of the Community Development Block Grant (CDBG) Program to borrow Federally-guaranteed funds for community development purposes. Section 108 borrowers obtain up to five times the amount of their annual CDBG grants by pledging to repay Section 108 loans with future CDBG grants in the event of a default. Section 108 thus enables grantees to undertake substantially larger community development projects than CDBG grants alone would support.

The Section 108 program guarantees loans that offer variable- and fixed-rate financing for up to 20 years to finance certain CDBG eligible activities, including economic development activities, public facilities and improvements, housing rehabilitation, land acquisition, and related activities. Several states have applied directly for Section 108 funding to be distributed to communities in non-entitlement areas to create a loan portfolio of job creation projects. Since 1977, HUD has issued 1,933 commitments totaling more than $9.3 billion (through September 30, 2015). When HUD guarantees a Section 108 loan, it provides a full faith and credit guarantee to the lender, thereby ensuring timely payment of principal and interest and favorable interest rates. HUD has never paid a claim from a holder of a guaranteed obligation as a result of a default, due in part to the availability of CDBG funds for repayment if planned repayment sources are insufficient. The loans guaranteed under Section 108 are privately financed. HUD has developed a productive partnership with financial institutions who implement a flexible financing structure while providing states and local governments with low-cost financing.

Communities across the country turn to the Section 108 loan guarantee as a source of funds for these crucial projects. Currently, Section 108 is supporting 683 outstanding loans in communities across the

[1] CONG. BUDGET OFFICE, J. COMM. ON TAXATION, SUBSIDIZING INFRASTRUCTURE INVESTMENT WITH TAX-PREFERRED BONDS (Oct. 2009)(showing that for education, water, and sewer, nearly all capital investments are made by state and local governments and that for transportation most investments are made by state and local governments).

country, with a total loan balance of $1.66 billion. Section 108-assisted projects approved in 2014 and 2015 are projected to create 5,187 jobs based on $233 million in loan guarantees revenue generating activities (e.g., economic development) with Community Development Loan Guarantee. In 2014 HUD proposed and Congress enacted a proposal to finance the credit subsidy for Section 108 loans through a fee of 2.59% to borrowers, which made Section 108 a zero subsidy program. The Fiscal Year (FY) 2016 authorization for section 108 is $300 million.

Right now NDC is working on a 108 project in St. Clair County, Illinois. The project involves the development of a minority owned, full service grocery store in a food dessert. The last full service grocery store in the City of East St. Louis, IL closed over a year ago. A local entrepreneur with extensive experience owning, operating, and managing grocery stores proposes to purchase the property and re-establish full service grocery operations in the city. The owners are requesting a $700K HUD 108 loan. The store would create 32 permanent jobs and gross approximately $7.8 million in gross sales during its first full year of operation.

Policy Recommendations for Section 108

Increase Section 108 to $500 million in annual loan volume. This authorization will produce an estimated 10,000 jobs in communities across America at no cost to the US Treasury. Allow 108 loans for infrastructure development.

III. New Markets Tax Credit (NMTC)

The Community Renewal Tax Relief Act of 2000 (PL 106-554) created the NMTC as part of a bipartisan effort to stimulate investment and economic growth in low income urban neighborhoods and rural communities lacking access to the patient capital needed to support and grow businesses, create jobs, and sustain healthy local economies. Between 2003 and 2014, $38 billion[2] in direct NMTC investments leveraged over $75 billion[3] in total capital investment in businesses and revitalization projects in communities with high rates of poverty and unemployment. Between 2003 and 2012, the NMTC generated about 750,000 jobs[4], at a cost to the federal government of less than $20,000 per job. By law, all NMTC investments must be made in economically distressed communities. In fact, more than 72 percent of all NMTC investments have been in communities exhibiting severe economic distress, demonstrating unemployment rates more than 1.5 times the national average, a poverty rate of 30 percent or more, or a median income at or below 60 percent of the area median. The New Markets Tax Credit generates economic activity, providing a return on investment to the federal government. In 2012, NMTC-financed businesses generated $984 million in federal tax revenue which more than covered the estimated $800 million cost of the Credit in terms of lost tax revenue in 2012.

In 2015, Congress enacted the PATH Act (PL 114-113), which extended NMTC for five years (2015-2019) at $3.5 billion in annual credit authority. In April, the Community Development Financial Institutions Fund (CDFI) of the Treasury Department announced that it would make available the amount authorized for 2015 and 2016, a total of $ 7 billion, which will be awarded to Community Development Entities in the fall. This will spur an estimated:

[2] CDFI Fund's FY 2015 Agency Financial Report
[3] NMTC Coalition Estimate
[4] A Decade of the NMTC (2003-2012), NMTC Coalition (December 2014).

- $14 billion in total investments in economically distressed communities including $2.8 billion in rural America;
- 166,000 construction jobs;
- $2.8 billion for investments in rural communities;
- Financing for 139 industrial and commercial facilities;
- Investments for 350 vital community facilities included schools, hospitals and clinics; and
- Financial assistance to 38 grocery stores and 84 mixed-use developments.

Since the inception of the program, NDC used the NMTC to support economic and community development. We not only provide tax credit equity to our client communities' projects, but we also help communities structure their NMTC transactions, find the necessary additional financing, and develop relationships with other organizations that receive allocations of the investment tax credits to provide NMTC equity when we cannot.
To date, NDC has:

- Invested in *87 projects* located in *25 states, r*eceived *$704 million* in NMTC allocation; and.
- Generated over *$1.7 billion in total other public and private investment* creating or retaining *14,508 jobs.*

For example, NDC used the NMTC to finance the Abilene Life Sciences Accelerator in the small town of Abilene, Texas. The laboratory and biotech incubator works with Texas Tech University Health Sciences Center through its Center for Immunotherapeutic Research and Product Development, the main focus of which is developing new drugs. The project created 40 construction jobs and 8 new permanent jobs.

Policy Recommendations for the New Markets Tax Credit:
- ***Make the NMTC a permanent part of the Internal Revenue Code;***
- ***Increase the annual NMTC allocation to $10 billion annually, indexed to inflation in future years; and***
- ***Provide Alternative Minimum Tax (AMT) relief for NMTC investments, thereby ensuring NMTC investors the same consideration under the AMT as is currently provided to investors in many other federal tax credits.***

IV. HISTORIC TAX CREDIT (HTC)

During the campaign President Elect Trump came to Washington, DC to open a project made possible by the historic tax credits - the new Trump Hotel in the historic post office on Pennsylvania. Historic Tax Credit projects create more jobs in underserved communities than new construction and other widely used stimulus strategies. More than 84 percent of historic tax credit projects from 2002 to 2008 and 60 percent of certified rehabilitation projects in Fiscal Year 2014 were located in low- and moderate-income neighborhoods.11 (11 *Historic Tax Credit Fact Sheet*, National Trust for Historic Preservation; *Annual Report on the Economic Impact of the Federal Historic Tax Credit for FY 2014,* National Park Service)

As the House and Senate tax writing committees move toward a re-write of the Tax Code, the Historic Tax Credit should remain part of permanent law as a result of its overwhelming success over the last four decades. According to the National Trust for Historic Preservation, since 1981, the historic rehabilitation tax credit (HTC) has:

- Created nearly 2.5 million good paying, local jobs;

- Leveraged more than $117 billion in private investment in our communities;
- Generated a significant return on investment for the federal government;
- And preserved more than 40,000 buildings that form the historic fabric of our nation.

Since it was permanently written into the tax code more than 30 years ago, the HTC has been a widely used redevelopment tool for inner cities, towns, and rural communities across the country. When the HTC was examined by Congress in the lead up to the 1986 Tax Reform bill, legislators concluded an incentive to rehabilitate historic structures remained justified. The report accompanying the bill reasoned that without the HTC market forces would drive investment away from more expensive rehabilitation and urban cores and toward more predictable new construction in the suburbs. This justification is as valid today as it was then. Developers, both large and small, report that historic rehabilitation projects would not occur without the HTC. Even in situations where developers benefit from lower tax rates, the less profitable option of historic preservation will not be favored over building on previously undeveloped commercial sites. Absent the HTC, which fills a critical financing gap, rehabilitation of historic commercial properties in the United States could come to a halt.

In 2012, the National Park Service commissioned a study that concluded the HTC generates a significant return on investment for the federal government. According to the Park Service, over the life of the program the IRS has issued $24 billion in tax credits while generating more than $28.6 billion in direct federal tax revenue from income taxes paid by material manufacturers, construction workers, and the retail and service sector tenants that ultimately occupy rehabilitated properties.

The HTC continues to fulfill the federal public policy goal set forth in the National Historic Preservation Act of 1966 of preserving the nation's architectural heritage by rehabilitating historic structures that tell America's story. It benefits communities throughout the nation where thousands of iconic historic buildings have been brought back to life and are contributing to the local economy.

Policy Recommendations for the Historic Tax Credit:

NDC supports the Historic Tax Credit Improvement Act of 2015 (H.R. 3846). This bill would make long overdue changes to the federal Historic Tax Credit to further encourage reuse and redevelopment in small, midsize and rural communities. Main Streets across America would have a stronger tool to help breathe new life into their historic buildings. The bill would increase the credit from 20 to 30 percent for projects with rehabilitation expenses of less than $2.5 million, which would help inject new private investment into smaller and more rural communities. It would also make the rehabilitation of community projects like theaters, libraries, and schools easier while maximizing the impact of state historic tax credits. The bill's updates would also make more historic properties eligible to use the credit. The bill's provisions would be the first major changes to the federal Historic Tax Credit since the 1986 tax bill. (Bill Summary)

B. STRATEGIES FOR INVESTING IN JOBS

I. CDFI FUND

The Community Development Financial Institutions (CDFI) Fund was established within the U.S. Department of Treasury in 1994[5] to promote community development in economically distressed urban and rural communities by investing in and growing Community Development Financial Institutions (CDFIs) across the country. There are currently 926 Treasury certified CDFIs.[6]

CDFIs are mission-driven financial institutions that deliver affordable credit, capital, and financial services to residents and businesses in minority and economically distressed communities. In addition to overseeing CDFI certification, the CDFI Fund administers a range of innovative programs designed to strengthen the ability of CDFIs to provide financial products and services in underserved communities.

The CDFI Fund administers the following core programs and each program awards funds annually through an independent and competitive application process for financial assistance that provides lending capital to CDFIs in urban and rural areas; technical assistance to build the capacity of CDFIs; assistance to CDFIs located in and serving Native Communities; and Bank Enterprise awards to Federal Deposit Insurance Corporation (FDIC) insured banks and thrifts that increase investment activity in communities with high rates of poverty and unemployment.

Since 2003, CDFIs receiving awards from the Fund loaned and invested more than $26 billion to underserved businesses and individuals. In FY 2015, CDFIs receiving a financial award made over 41,000 loans or investments, totaling over $3 billion, and financed over 12,000 small businesses and more than 25,000 housing units.

CDFIs work added nearly 2 million square feet of grocery stores, farmer's markets, and other facilities and amenities designed to fight food insecurity since 2008. CDFIs are increasingly investing in some of the poorest communities in America – where poverty is over 30 percent or median incomes are under 60 percent of the area median. Before the recession, 27 percent of CDFI investments were located in these "severely distressed" communities. By 2013, that number had risen to 44 percent. CDFIs' geographic coverage has increased significantly between 2003 and 2013. The percentage of counties receiving at least one loan or investment increased from 23 percent to 48 percent.

Policy Recommendation for the CDFI Fund:

- ***Provide $500 million in annual CDFI Fund appropriations, helping CDFI award recipients:***
  - ***Make over $7 billion in total annual loans and investments to 25,000 small businesses and 25,000 consumers;***
  - ***Create 53,000 affordable housing units annually;***
  - ***Provide financial literacy or other training to 750,000 individuals annually; and***
  - ***Expand CDFI coverage into historically underserved areas like native lands.***

II. COMMUNITY REINVESTMENT ACT

[5]The CDFI Fund was authorized as part of the *Riegle Community Development and Regulatory Improvement Act (PL 103-325)*.

[6] To be eligible for CDFI certification an organization must be a non-governmental entities (with the exception of Tribal governmental entities); with a primary mission of promoting community development; that provides both financial and educational services to one or more defined low income target markets; and is accountable to the target market it serves.

The Community Reinvestment Act (CRA) is an affirmative obligation in the primary lending market. Under the CRA, depository institutions "…have a continuing and affirmative obligation to help meet the credit needs of their local communities in which they are chartered." Those obligations are to be met "consistent with the safe and sound operations of such institutions." Depository institutions, for example, are compelled to meet their affirmative obligation in exchange for taxpayer support, such as bank charter status and federal deposit insurance. Together with anti-discrimination, consumer protection, and disclosure laws, CRA remains today a key element of the regulatory framework, encouraging the provisions of mortgage, small business, investments and other financial services in low-and moderate-income neighborhoods.

The Community Reinvestment Act (CRA) is an important tool used to drive private investment into America's underserved communities. For the first 30 years of its existence, from 1977 to 2008, CRA generated more than $6 trillion in private investments2 for America's low- and moderate-income communities. Since that time, there have been billions more in CRA commitments made. Changes in the financial marketplace – technological innovations in lending and increasing market share by different types of lenders – magnify the gaps in the law.

CRA continues to be a chief motivating factor for banks to serve communities in need of investment and it should be modernized and strengthened. CRA should cover the entire primary market – bank-holding companies, independent mortgage companies, credit unions, non-depository online lenders, insurance companies and hedge funds – because a changing financial landscape has resulted in a drop in community investments in underserved communities, both rural and urban. CRA coverage should depend on the activities and not on the identity of the financial institution. CRA continues to be a motivating factor for banks to serve communities in need of investment.

Policy Recommendations for Community Reinvestment

NDC supports protecting, modernizing and strengthening the Community Reinvestment Act (CRA). Most fundamentally NDC supports keeping the CRA laws in place as they clearly encourage investment in distressed communities.

NDC also encourages the Consumer Finance Protection Agency to collect and make public better data about small business lending. Under the Dodd-Frank Act, the CFPB is required to collect and improve data collection on small business lending. The agency is preparing to issue a proposed rule.

While sophisticated data exists on the housing market, there are significant gaps in the small business lending data that regulators collect. In particular, the existing data does not provide much insight into the treatment of businesses of different revenue sizes or backgrounds, such as women- and minority-owned businesses. Without more information on the demographics and financial situation of small business owners who received or were denied loans, possible fair lending discrepancies are impossible to identify. Without understanding precisely who the borrowers seeking small business credit are, the market is less able to create the kinds of products that best serve their needs. Additionally, the lack of data makes it more difficult to assess government efforts to stimulate the economy and assist businesses in accessing credit.

The CFPB should require, at a minimum, the following small business data elements:

- Race and ethnicity data that incorporates several sub-categories to capture the full experience of all races and ethnicities including Asians and Hispanics;
- Revenue size disclosures that fully capture the experiences of micro-businesses;
- Data on all applications, including denials;
- Pricing of loan products; a new database that captures a plethora of loan purposes and types so that regulators and members of the public can track lending and be able to determine if it is responsibly meeting the credit needs of underserved borrowers and communities.

III. SMALL BUSINESS ADMINISTRATION GUARANTEEED LENDING

The Small Business Administration provides access to capital, contracting and counseling for entrepreneurs.

Small business is a key engine of growth for our economy, yet lending to small business often requires an extra boost because the businesses have needs beyond a conventional lender's profile. In 2015 the SBA guaranteed nearly 70,000 loans totaling $30 billion dollars. The volume of loans reached an all-time high of $23.5 billion in the 7(a) program last year. These loan guarantees promote lending to small businesses who might be considered too risky without that assistance. The fees paid by borrowers insure that the loan guarantees have no cost to the US government. The program is a true public private partnership with over 2000 lenders across the country.

NDC Grow America Fund, NDC's small business lending arm, operates as a certified CDFI providing community development lending to support the creation of jobs and the expansion of eligible small business in underserved areas, particularly minority and women-owned businesses. NDC loaned over $200M to 522 small businesses creating or retaining 13,400 jobs.

The SBA reports annually by department progress on meeting the federal goals for contracting with women and minority owned businesses. In 2015 the federal government met, for the first time, the goal for women (just 5%). NDC provides technical assistance to Women Impacting Public Policy, the premier advocate for women in business, who has been leading the effort to include women in federal contracting.

Policy recommendations –

The SBA loan guarantees should continue as a no subsidy investment in small business. The authorization level should be at least $24B and should be adjusted to account for the needs as small businesses develop enough confidence in the future to invest.

The SBA should continue to report on federal contracting in order to highlight progress toward meeting the goals for doing business with women and minority contractors. Often the experience with government contracting provides the vital step to growth in a small business.

C. STRATEGIES FOR INVESTING IN HOMES

I. Low Income Housing Tax Credit

The Low Income Housing Tax Credit (**LIHTC**) is the single most important federal resource available to support the development and rehabilitation of quality and safe affordable housing, currently financing approximately *90 percent* of all new affordable housing developed in the country. While LIHTCs are often used with other sources of financing, they are the essential ingredient in addressing America's affordable housing shortage. Affordable housing is a critical part of the infrastructure needed to support economic development.

Economic Impact of LIHTC

Over the history of the LIHTC program, which dates back to the Tax Reform Act of 1986, the Credit financed nearly *2.8 million rental units, housing more than thirteen million people*. In addition to these significant improvements to the quality and quantity of rental housing stock across America, credit investments also generated significant economic activity, including creating about *90,000* construction and permanent jobs annually generating *billions* in economic activity.

While LIHTC is a critical financing tool for metropolitan areas, it is also the principal tool used by rural communities to overcome barriers to developing affordable rental housing. Between 2009 and 2011, LIHTC investments financed *10,911 affordable housing units in rural communities*.

A significant need remains to increase the supply of affordable housing. Most of America's renters – including those eligible for LIHTC units –pay more than *30% of their income* for housing, and one-quarter spend half of their monthly income. According to the Bipartisan Housing Commission, only one in four renter households received federal housing assistance of any kind. The gap between the supply of rental housing and demand for units by extremely low income households – those with incomes not exceeding 30% of area median – stands at *6.5 million units*. According to Harvard University's Joint Center for Housing Studies, in 2013, there were just 58 affordable units available to serve every 100 renters earning no more than 50 percent of area median income (AMI).

Beyond increasing the supply of housing, LIHTC helps states to meet new construction needs, and to preserve existing affordable housing. For these reasons, the Commission recommended a 50% increase in LIHTC over current rates as part of comprehensive housing finance reform.

NDC's LIHTC Work

NDC Corporate Equity Fund, L.P. (CEF) provides equity capital for the construction, renovation and preservation of quality affordable housing using Low Income Housing Tax Credits, Historic Preservation Tax Credits and Renewable Energy Credits. The CEF affordable housing portfolio includes *174 LIHTC projects* with over *8,600 units* of housing with activity in *30 states and Puerto Rico*. NDC Corporate Equity Fund has leveraged over *$1.5 billion* in other public and private investment to develop essential affordable rental housing.

NDC's analysis of a sampling of 25 LIHTC projects showed these projects created *1,618 jobs* and *1,472 units of affordable housing* with total tax credits awarded of *$125,893,499*. In Colorado alone, CEF invested in 19 LIHTC projects with an aggregate cost of *$133,626,685*. *Seven of the nineteen* LIHTC projects are in rural communities. In addition, one historic tax credit project resulted in an additional *$1,500,000* investment.

All told, *921 affordable housing units (235 in rural communities)* came to life. The LIHTC investments intentionally created economic integration to avoid concentration of poverty.

LIHTC Project Example

Seniors on Broadway, **Eagle, CO**: This project created 14 units of low income senior housing that allowed seniors the opportunity to live comfortably while offering income integration in the small resort town of Eagle, CO.

NDC Policy Recommendation for LIHTC

NDC urges Congress to expand the Low-Income Housing Tax Credit. Despite the growing need for affordable housing, viable and sorely needed Housing Credit developments are turned down each year because of resource constraints. In 2013 – the most recent year for which data is available – state Housing Credit allocating agencies received applications requesting more than three times their available Housing Credit authority.

Though the need for Housing Credit-financed housing has long vastly exceeded its supply, Congress has not increased Housing Credit authority since 2000. To make a meaningful dent in the affordable housing supply gap, we urge Congress to increase Housing Credit allocation authority by at least 50 percent. Such an expansion would support the preservation and construction of 350,000 to 400,000 additional affordable apartments over the next decade

NDC supports the Affordable Housing Credit Improvement Act of 2016 (S. 3237), a comprehensive bill to expand and strengthen the Housing Credit introduced by Senate Finance Committee Chairman Orrin Hatch (R-UT) and Senator Maria Cantwell (D-WA).

S. 3237 is comprehensive legislation that will make significant strides towards addressing our nation's severe shortage of affordable housing. Not only would it raise the cap on Housing Credit allocation authority by 50 percent, but it would also make numerous programmatic modifications to strengthen and streamline the Credit, support the preservation of existing affordable housing, and facilitate Housing Credit development in challenging markets. S. 3237 would:

> Expand the annual Housing Credit allocation by 50 percent. This would make a meaningful step towards addressing our nation's vast and growing affordable housing needs by enabling the creation or preservation of up to 400,000 new affordable homes over the next decade.
> Make affordable housing financing more predictable and feasible by creating a permanent minimum 4 percent Housing Credit rate for acquisition and for Housing Bond-financed properties.

Permit income averaging within Housing Credit properties in order to preserve rigorous targeting while providing more flexibility and responsiveness to local needs.
S. 3237 also adds numerous programmatic modifications that will further strengthen the Housing Credit by:

- Making Housing Credit administration more predictable and streamlined,
- Supporting the preservation of existing affordable housing,
- Facilitating Housing Credit development in challenging markets like rural and Native American communities, and

- Increasing the Housing Credit's ability to serve extremely low-income tenants.

See bill summary and the bill text for a full list of provisions in S. 3237

II. Rural Housing

Renters in rural areas are among the worst housed individuals and families in the country (American Housing Survey, 2011). Thirty-five percent of rural renters are cost-burdened, paying more than 30% of their income for housing costs. Almost one million rural renter households suffer from multiple housing problems, 60% of whom pay more than 70% of their income for housing. The preservation of affordable rental housing in rural areas is another crucial issue that needs to be addressed.

The U.S. Department of Agriculture (USDA) Section 515 Rural Rental Housing Program is an invaluable tool for rural rental housing production, repair, and preservation. Of the tenants residing in USDA multifamily housing, 94% have very-low incomes, earning no more than 50% of the area median income; 61% of all Section 515 households are headed by an elderly or disabled tenant, 30% are headed by persons of color, and 72% are headed by women. For many small rural communities, the rental housing financed by USDA is the only affordable rental housing available.

Current section 515 funding is less than $50 million per year. While USDA has devoted more resources to preservation activities and vouchers, that amount is nonetheless de minimis and there is essentially no new construction program at USDA. As a result of this low level of funding approximately 100 developments per year exit the section 515 program.

USDA faces a number of challenges in simply maintaining its current portfolio:

1. The average age of the rural rental housing portfolio is 28 years. A 2004 report indicated a 20 year, $2.6 billion cost for maintaining and preserving existing rural rental housing developments the approximately 400,000 units of existing rural rental housing In FY 15, USDA financed the revitalization of 3544 units of rental housing. There has not been an adequate level of resources aimed at preserving the existing portfolio;

2. A rising tide of maturing mortgages. Under current law, rural rental assistance is limited to developments that are financed under section 515 and farm labor units financed under section 514. As section 515 and 514 loans have matured, those developments and their tenants are no longer eligible for rental assistance. USDA has already lost a substantial number of units and the Fiscal Year 2017 federal budget estimates that many more projects will exit the programs in future years; and

3. A shortfall in Low Income Housing Tax Credit Resources. The funding level of rural LIHTC units leveraging section 515 has decreased by 85% from 1987 to 2010. This is because section 515 plays an important role in attracting other housing resources to rural America. A recent ABT report commissioned by HUD indicates a low rate of non-metro participation in the Low Income Housing Tax Credit. During 1995-2004, non-metro communities had 25% of the projects but only 13% of the units financed by LIHTC.

NDC Project Example:

NDC Corporate Equity Fund XII announced a LIHTC closing for a $5.5 million rehabilitation and consolidation of three projects, totaling 52 affordable senior units. With the closing for this project, NDC Corporate Equity Fund adds a new state to their portfolio. The project was completed in partnership with Carefree Living Caliente, American Covenant Senior Housing Foundation and Oakleaf, LLC.

The Lincoln Square development is located in the southeastern portion of the state of Nevada, in a rural census tract. All units receive Rural Development Rental Assistance, and are set aside for seniors that are 30%, 40% and 50% of the AMI. Until recently the properties were operating at about 63% occupancy due to poor management, the development team stepped up, vastly improving tenant relations and investing nearly $60,000 from September 2014 to March 2015 to address general maintenance issues. The property currently operates at 100% occupancy.

Three rural projects will be consolidated into one Lincoln Square property; the rehabilitation will address a sewer line repair to restore one unit that is currently not leasable. The units will be updated with new cabinetry, appliances, bathroom fixtures, flooring and lightening. Additionally, the open parking lots will become covered, with structures serving as racks for solar panels.

Permanent financing for the project included a USDA 515 Loan, USDA 538 Loan proceeds, HOME funds, LIHTC equity and Renewable Tax Credit investment

NDC Policy Recommendation for Rural Housing:

Provide $200 million in new lending authority for rural rental housing activities. Of this amount $100 million should be targeted for refinance and rehabilitate projects with maturing mortgages and other steps necessary to preserve and maintain the portfolio. This amount should be principally targeted to activities authorized under section 515 of the Housing Act and used in conjunction with other rental housing authorities and $100 million should be used to finance new construction of rental housing units in rural America. The cost of the increase is $66 million in budget authority. Additionally, appropriations for rural rental assistance should be maintained at a level adequate to extend all tenants.