A PROPOSAL TO PROTECT AND EXPAND AFFORDABLE HOUSING CONSTRUCTION USING THE LOW-INCOME HOUSING TAX CREDIT

by
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Abstract:

Ensuring that every American can afford a safe and decent dwelling is a stated policy goal of the United States federal government. Congress appropriates billions of dollars every year to provide housing vouchers to low-income persons, and to construct and preserve affordable housing. However, the number of people who are unable to afford housing as a reasonable part of their budget is growing every year. Unaffordable housing can stretch other necessities in a budget, cause hypermobility resulting in underachievement in school, and negatively affect the health of low-income persons. Given the political and policy environment in Washington, these problems are at risk of becoming more severe.

This capstone proposes reforms to the Low-Income Housing Tax Credit program to boost the construction of affordable housing stock. Analyzing quantitative and qualitative evidence, it argues this proposal achieves the stated policy and political goals for the principal. Specifically, it would increase the production of affordable housing units, and appeal to targeted political constituencies in Senator Sherrod Brown's home state. Professor Paul Weinstein, Director of the Public Management Program, acted as the advisor for this capstone paper.

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<u>MEMORANDUM</u>

To: United States Senator Sherrod Brown

From: Alex Beaton

Date: 1/23/2017

RE: Protecting and Enhancing Affordable Housing Programs

Action Forcing Event

The leaders of the Republican-controlled 115th Congress have signaled their intentions to significantly limit domestic discretionary spending and seem poised to target programs that are designed to benefit low-income persons in your state and across the country.[1] Moreover, President-elect Trump thus far appears willing to let Congress take the lead on these domestic spending reforms.

Statement of the Problem

Rising costs of rental housing in Ohio and nationally are making it more difficult for Americans to afford rental housing. As a result, a record number of renters are considered "rent burdened," spending more than 30 percent of their after-tax income on housing.[2] This problem affects every community in the country, and most acutely affects those who cannot afford basic housing.

Exacerbating the broader problem of housing unaffordability nationwide is the lack of affordable housing stock to serve the rent burdened. Nationwide, there is a deficit

[1] Kogan, Richard, and Joel Friedman, "Ryan Plan Gets 69 Percent of Its Budget Cuts From Programs for People With Low or Moderate Incomes," *Center for Budget and Policy Priorities*, April 8, 2014.
[2] "The State of the Nation's Housing 2016," *Joint Center for Housing Studies of Harvard University*, June 22, 2016.

of 7.2 million affordable units for renters making less than 30 percent of area median income, also known as extremely low-income renters. In Ohio, there is a deficit of nearly 275,000 affordable rental units for extremely low-income renters.[3] That translates to only 38 affordable rental units for every 100 extremely low-income renters, making it very difficult for those renters to find housing they can afford.

In addition to the problem of economic inequality in housing, current housing costs negatively impact society as a whole because of a number of resulting harmful outcomes. Households burdened with high housing costs experience decreased economic security, have poorer educational and health outcomes, and can harm the economy of their surrounding area.[4]

As of 2014, 21.3 million rental households were rent burdened, with an additional 18.5 million homeowners also burdened by housing costs.[5] In rental housing, increasing rental costs that are surpassing wage growth are causing this affordability gap to increase. According to the National Low Income Housing Coalition, in 2016 a full-time worker in America needed to earn $20.30 an hour in order to be able to afford a modest two-bedroom apartment. Moreover, the average hourly wage of a renter is $15.42, short of this standard of affordability nationwide.[6]

In addition to the gap that currently exists, rent costs are increasing at a faster rate than wages and salaries are growing for workers. In fiscal year 2016, wages and salaries

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[3] Andrew Aurand, et al, "The Gap: Affordable Housing Gap Analysis 2016," *National Low Income Housing Coalition*.
[4] "Impact of Affordable Housing on Families and Communities: A Review of the Evidence Base," *Enterprise Community Partners*, 2014.
[5] "The State of the Nation's Housing 2016," *Joint Center for Housing Studies of Harvard University*, June 22, 2016.
[6] Diane Yentel, et al, "Out of Reach 2016," *National Low-Income Housing Coalition*, May 31, 2016.

for workers increased by 2.4 percent.[7] However, that was outpaced by over 4 percent growth in the housing wages, rising from $19.35 an hour in 2015 to $20.30 an hour in 2016.[8] While the most expensive jurisdictions are large cities commonly associated with expensive housing such as San Francisco, Ohio has seen its housing wage increase by nearly a dollar in the last five years.[9] Meanwhile, the minimum wage in Ohio is not keeping pace with a 15-cent increase over the same period.[10]

This growing financial burden for housing in the United States has a number of consequences for families that struggle to afford adequate dwellings. An immediate consequence to housing cost burdens can be hypermobility of dwellings, being at risk of homelessness, and even homelessness. According to the National Alliance to End Homelessness, financial insecurity often driven by housing cost burdens is a major contributing factor to homelessness.[11] At a time when 57 percent of Americans are not financially prepared for unexpected life events, homelessness continues to be a major issue for society.[12]

Next, these difficult financial situations can cause households that are rent burdened or financially insecure to make necessary but potentially detrimental financial decisions for their futures. As the Figure 1 illustrates, severely cost-burdened households (spending greater than 50 percent of income on housing) have less discretionary income

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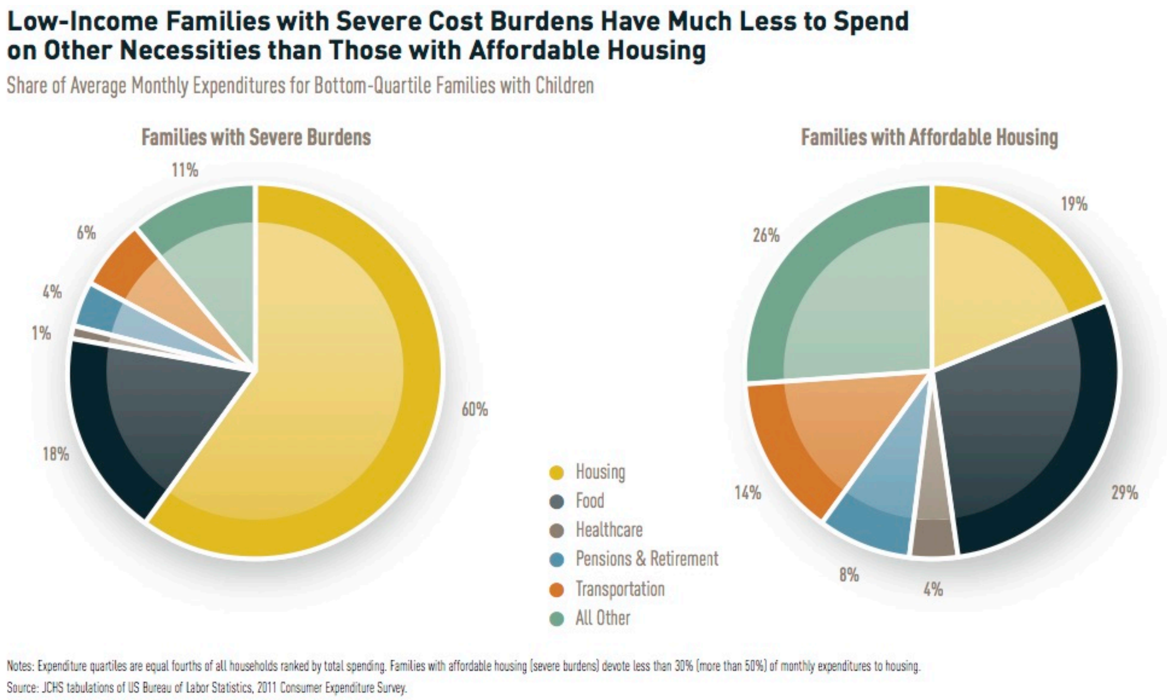
[7] "Employment Cost Index Summary," Bureau of Labor Statistics, October 28, 2016.
[8] Megan Bolton, et al, "Out of Reach 2015," *National Low-Income Housing Coalition*, May 19, 2015.
[9] Elina Bravve, et al, "Out of Reach 2011," *National Low-Income Housing Coalition*, June 2011.
[10] Darrel Rowland, "Ohio Minimum Wage to Increase by 15 Cents," *The Columbus Dispatch*, December 27, 2014.
[11] "The State of Homelessness in America," *National Alliance to End Homelessness*, April 6, 2016.
[12] "Americans' Financial Security: Perceptions and Reality," *Pew Charitable Trust*, February 26, 2015.

to spend on other essentials. This can be defined as economic insecurity, or not earning enough money to cover necessities and save for unexpected life events.[13]

Figure 1



Source: Harvard University[14]

Although financial insecurity and poverty are significant problems stemming from unaffordable housing, this situation also harms the health and wellbeing of lower income households living in inadequate housing. In 2011, the American Journal of Public Health demonstrated a clear link between housing insecurity and the health of children living in those housing situations. The study determined health outcomes were worse based on a survey of medical caregivers for children, by rating their health against

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[13] Motoko Rich, "Economic Insecurity," *New York Times*, November 22, 2011.
[14] "The State of the Nation's Housing 2013," *Joint Center for Housing Studies of Harvard University,* June 23, 2013.

medical chart reviews. Their definition of housing insecurity, which included low affordability, substandard housing, overcrowding, or unstable neighborhoods, all relate in some way to rising housing costs.[15]

Housing insecurity can also contribute to harming educational achievement for children because of hypermobility or overcrowding of schools. Educational achievement can be measured in completion of high school or by meeting grade-level standards. The Center for Housing Policy notes that both of those factors, which can stem from housing unaffordability, often limit a child's success in schools in those criteria. For example, frequent moves because of unaffordability disrupt the school year. Moreover, overcrowding and other substandard housing situations are not ideal learning environments for children.[16]

These negative effects resulting from unaffordable housing demonstrate a clear public policy problem worthy of action. Economic insecurity, worsening public health, and lessening educational achievement all logically lessen economic productivity and leave families worse off.

History

Post Depression Era

In the wake of the great depression, the federal government enacted a number of policies that were primarily intended to strengthen the economy by building affordable housing units across the country. As part of a larger public works effort in 1933,

[15] Diana Becker Cutts, et al, "US Housing Insecurity and the Health of Very Young Children," *American Journal of Public Health* 101 (2011), 1508-1514.
[16] Maya Brenna, "The Impacts of Affordable Housing on Education: A Research Summary," *Housing Policy Research*, May 2011

Congress created a pilot program to test the feasibility of building public housing projects. Four years later, they expanded that effort by establishing the United States Housing Authority as part of Housing Act of 1937.

That law was signed into law with the stated intent "to alleviate present and recurring unemployment and to remedy the unsafe and insanitary housing conditions and the acute shortage of decent, safe and sanitary dwellings for families of low income."[17] To achieve that goal, the law authorized subsidies to local public housing authorities to construct or rehabilitate public housing for low-income families.

Post WWII Era

Decent and affordable housing continued to be a priority for administrations following World War Two with millions of Americans returning home in need of adequate housing. President Truman signed the Housing Act of 1949 into law to reactivate many of the public housing programs that were halted during the war, as well as a number of efforts to clean up substandard housing in slums.[18] Importantly, the legislation also stated a clear intent to provide "a decent home and a suitable living environment for every American family." The federal government continued to strive to meet that goal through continued expansion of public housing programs throughout the decade.[19]

During the 1960s the construction of public housing continued to be the primary means by which the federal government sought to provide affordable housing for low-

[17] *Housing Act of 1937*, Public Law 75-412.
[18] *The Housing Act of 1949*, Public Law 81-171.
[19] Maggie McCarty, et al, "Overview of Federal Housing Assistance Programs and Policy," Congressional Research Service, April 15, 2014.

income persons.[20] Both the Housing Act of 1961[21] and the Housing and Urban Development Act of 1986[22] established new programs to provide low interest mortgages to developers of multifamily low-income housing projects. According to the Department of Housing and Urban Development (HUD), those Section 236 and Section 221(d)(3) programs built roughly 700,000 public housing units.[23]

Rental Assistance

That expansion of federally subsidized rental programs ended in 1973 when President Nixon halted the construction of public housing by the federal government.[24] President Nixon argued that the existing programs were building low quality and still unaffordable public housing.[25]

This action limited the growth of government-owned affordable housing stock, but in its wake policymakers implemented rental assistance programs to help low-income renters afford housing in the rental market. In 1974, the Nixon administration created the Section 8 project rental assistance program to construct and rehabilitate affordable rental housing. The program began by providing subsidies to organizations to manage properties and rent them out at a government-subsidized rate.[26]

A substantial reform to that program was the addition of rental vouchers to the Section 8 housing programs. In 1983, Congress created vouchers for low-income renters

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[20]Maggie McCarty, et al, "Overview of Federal Housing Assistance Programs and Policy," Congressional Research Service, April 15, 2014.
[21] *Housing Act of 1961,* Public Law 87-70.
[22] *The Housing and Urban Development Act,* Public Law 90-448.
[23] Meryl Finkel, et al, "Multifamily Properties: Opting in, Opting out, and Remaining Affordable," January 2016.
[24] Charles Orlebeke, "The Evolution of Low-Income Housing Policy, From 1949-1999," *Housing Policy Debate*, 2000.
[25] President Richard Nixon, "Presidential Message to Congress on Housing Policy," September 19, 1973.
[26] Maggie McCarty, "An Overview of the Section 8 Housing Program," *Congressional Research Service,* January 10, 2005.

to use in the private rental market to subsidize market rents to an affordable rate. This greatly expanded the pool of potential affordable dwellings, but also created a large yearly budget item for HUD as the cost of vouchers rose with inflation.[27]

Community Development Block Grants

The establishment of the Section 8 program in the 1970s created a reliable yearly source of funding for states and localities to construct and preserve affordable housing for low-income persons. The same legislation that launched Section 8 also established the Community Development Block Grant (CDBG). This block grant program, where the federal government allocates yearly appropriations to the states, supports a variety of activities to support community development efforts. This program still exists today and continues to fund local affordable housing programs as one of its eligible activities.[28]

HOME Investment Partnerships Program

Following the implementation of the CDBG program as a source of housing capital for states and localities, affordable housing advocates recommended a similar program specifically targeted at affordable housing needs. In 1990, Congress passed the Cranston-Gonzales National Affordable Housing Act, and created the HOME Investment Partnerships program.[29] Modeled after CDBG, the HOME program would still provide states and localities flexibility to use the dollars as they saw fit, as long as they fit within prescribed housing-related activities. Unlike CDBG, the funding must be specifically targeted for low-income persons whose income is below 60 percent of AMI.[30]

[27] *Housing and Urban-Rural Recovery Act of 1983.* Public Law 93-181.
[28] Eugene Boyd, "Community Development Block Grants: Recent Funding History," *Congressional Research Service*, February 6, 2014.
[29] *Cranston-Gonzales National Affordable Housing Act of 1990.* Public Law 101-625.
[30] Maggie McCarty, et al, "Overview of Federal Housing Assistance Programs and Policy," Congressional Research Service, April 15, 2014.

Low-Income Housing Tax Credit

The 1986 Tax Reform legislation replaced beneficial tax provisions for the Section 8 program with the Low-Income Housing Tax Credit (LIHTC) as the primary tax expenditure for affordable housing. The tax credit provides equity investors with a tax shelter in exchange for building housing with a set percentage of the units at an affordable rate.[31] The credit is allocated to each state based on population, and the states then distribute the credit based on a credit allocation plan. The credit was made permanent in 1993, eliminating a sunset provision in the original tax reform legislation.

National Housing Trust Fund

The 2008 Housing and Economic Recovery Act created the National Housing Trust Fund, a new federal grant program for affordable housing. Unlike HOME or CDBG, which are appropriated on a yearly basis, the trust fund was intended to provide a reliable source of affordable housing funding. Specifically, this fund was targeted at "extremely low-income" renters, who are assisted by other programs but until the trust fund did not have a dedicated program.[32]

Another unique feature of the trust fund from other programs is its mandatory funding mechanism. The trust fund is funded through the contribution of excess profits from Fannie Mae and Freddie Mac, two government-sponsored enterprises providing mortgage-backed securities. Should the director of the Federal Housing Finance Agency determine they are in good financial health, the trust fund receives a portion of their profits. In 2016, they made their first contributions to the fund.[33]

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[31] Charles Edson, "Affordable Housing: An Intimate History," *American Bar Association.*

[32] "The Housing Trust Fund: Background and Issues," *Congressional Research Service*, January 22, 2015.

[33] "Fannie, Freddie Contribute $186M to Housing Trust Fund," *National Multifamily Housing Council,* March 21, 2016.

Sequestration

The 2011 Budget Control Act required Congress to pass legislation lowering the federal deficit, or face mandatory across-the-board discretionary spending cuts.[34] These sequestration cuts went into effect in 2013, resulting in a reduction of federal spending on housing programs until the spending was restored. Over 100,000 fewer housing choice, Section 8, vouchers were administered to families as a result of the caps.[35] While the amount of vouchers has returned to its pre-sequestration levels, should Congress violate the spending caps in the Budget Control Act those cuts would be placed back into effect.[36]

Current Policy

Current policy for the creation of affordable housing stock largely consists of the low-income housing tax credit combined with the aforementioned capital grant programs. In general, localities combine the housing tax credit with the more flexible grant programs to finance housing projects. Combining the credit with grants like HOME, CDBG and state-level funding sources allows local housing authorities to build affordable housing.[37]

Income and Wage Stagnation for Low-income Persons

A contributing factor to the problem of housing unaffordability is the slow growth of wages for lower-income persons over recent decades. Despite overall economic growth, wages for the bottom 10th percentile of all earners have fallen five percent since

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[34] *Budget Control Act of 2011*, Public Law 112-25.

[35] "Chart Book: Cuts in Federal Assistance Have Exacerbated Families' Struggles to Afford Housing," *Center for Budget and Policy Priorities,* April 12, 2016.

[36] Douglas Rice, "Substantial Funding Boost Needed to Renew Housing Vouchers in 2017," *Center for Budget and Policy Priorities,* January 25, 2017.

[37] Pamela Blumenthal, et al, "How Affordable Housing Gets Built," *The Urban Institute*, July 27, 2016.

1979.[38] Meanwhile, in recent decades the cost of rental housing is on the rise. Since 1991, primary residence rents have risen at an average rate of 2.9 percent annually. The increasing cost of housing, combined with stagnating wages of lower-income persons makes it more difficult to afford housing at a price that is affordable for their income.[39]

Production of Affordable Housing Stock

A fundamental driver of the housing affordability crisis is the lack of available affordable units for low-income persons. In 1973, there was a surplus of four million affordable housing units in the United States, a compared to the current deficit of over seven million units.[40] Part of this problem is that rental construction market production is skewed towards higher priced units. A 2011 study found that only 34 percent of new rental units built were affordable for those making the median income or lower.[41] Despite the federal incentives discussed earlier, production of these units is still less favorable to developers than higher-end market rate housing.

Additionally, the preservation of affordable rental stock is a key aspect of availability of rental housing. While it is natural for housing units to be demolished and removed from the market over time, affordable units are more likely than market rate units to be lost. The loss rate for all rental housing is 5.6 percent. That is much lower than the loss rate for the most affordable housing units at 12.8 percent. This is contributing to

[38] Michael Madowitz and Brendan Duke, "Jobs and Wages," *Center for American Progress*, September 8, 2016.
[39] William R. Emmons, "Recent Rise in Housing Costs Belies Long-Term Affordability," *Federal Reserve Bank of St. Louis*, September 2016.
[40] Diane Levy, et al, "In the Face of Gentrification: Case Studies of Local Efforts to Mitigate Displacement," *Urban Institute*, 2006.
[41] "America's Rental Housing: Evolving Markets and Needs," *Joint Center for Housing Studies of Harvard University*, 2013.

the increasingly difficult task of preserving the availability of these units.[42] On a per unit basis, HUD estimates that 400,000 affordable units are lost each year due to disrepair, and 140,000 units are converted to market rate units instead of affordable units.[43]

Gentrification

Another driver of housing unaffordability is the gentrification of neighborhoods that changes historical housing costs and can result in significant displacement. While rising housing costs and related development can be beneficial and desirable for the overall economy of a community, it can make housing less affordable for low-income renters. Rising rental costs and increased desirability of the neighborhood for potential residents causes developers to prioritize market rate and higher end rental units. This decreases production of affordable units, which can make the neighborhood less affordable for future lower income renters.[44]

Gentrification also makes traditionally low-income communities more expensive for renters. In the 1990s, the amount of low-income metropolitan census tracts that saw a large increase in rent, defined as an increase of over 10 percent, was only 10 percent of those census tracts. However, in the 2000s that amount rose to 25 percent, demonstrating that rents were more quickly rising in metropolitan areas where gentrification was occurring.[45]

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[42] "America's Rental Housing: Evolving Markets and Needs," *Joint Center for Housing Studies of Harvard University*, 2013.
[43] Todd Richardson, et al, "Ensuring Equitable Neighborhood Change: Gentrification Pressures on Housing Affordability," *U.S. Department of Housing and Urban Development*, December 2016.
[44] Diane Levy, et al, "In the Face of Gentrification: Case Studies of Local Efforts to Mitigate Displacement," *Urban Institute*, 2006.
[45] Ingrid Ellen and Lei Ding, "Advancing Our Understanding of Gentrification," Presented at the Philadelphia Federal Reserve Research Symposium on Gentrification and Neighborhood Change, May 25, 2016.

Background

With Republican majorities in the House and the Senate, and Donald Trump soon to be sworn in as President, conservatives are in dominant policymaking positions for affordable housing.

As the former House Budget Committee chair, the Speaker Paul Ryan has historically supported severe cuts in discretionary affordable housing programs.[46] However, one of his primary agenda items for this Congress is tax reform, broadly targeted at lowering rates by eliminating many tax expenditures.[47] In regards to housing-related tax policies, the House Republican plan preserves the mortgage interest deduction and does not address LIHTC.[48]

That tax plan would be considered first by the tax-writing committees, the House Ways and Means Committee and Senate Finance Committee. Ways and Means Chairman Kevin Brady is one of the main architects of the Republican leadership's "Better Way" agenda, which is the House Republican tax reform proposal. His top priority will be passing a tax reform package that most closely resembles the principles of that plan.

Senator Orrin Hatch, the Chairman of the Senate Finance Committee, will likewise have significant influence over a tax reform package. That said, Senator Hatch has not commented in detail on the Ryan Better Way Agenda.[49] In the 114th Congress Senator Hatch demonstrated strong support for maintaining and expanding LIHTC. Senator Hatch sponsored Senator Maria Cantwell's Affordable Housing Credit

[46] Richard Kogan and Joel Friedman, "Ryan Plan Gets 69 Percent of Its Budget Cuts From Programs for People With Low or Moderate Incomes," *Center for Budget and Policy Priorities*, April 8, 2014, (accessed January 22, 2017).
[47] Lindsey McPherson, "Paul Ryan Suggests Tax Overhaul Is First Priority of GOP Agenda," *Roll Call,* October 14, 2016.
[48] Paul Ryan, "A Better Way: Tax," June 25, 2016.
[49] Kelsey Snell, "Tax Reform Shaping Up To Be One of Washington's First Fights Under Trump," *Washington Post*, November 17, 2016.

Improvement Act of 2016. This legislation expands the number of credits available to states, and makes other reforms to the LIHTC to provide additional housing stock for extremely low-income renters and to enable non-profits to purchase affordable housing properties to keep them affordable.[50]

The authorizing committees, the Senate Banking Committee and the House Financial Services Committee, maintain jurisdiction over non-tax housing programs. These programs include HOME, the National Housing Trust Fund, Section 8 vouchers, and CDBG. Senate Banking Committee Chair Richard Shelby does not have a significant record of activism on affordable housing issues, but his state also faces a similar deficit in affordable housing units as Ohio. In Alabama, there are only 41 affordable units for every 100 extremely low-income renters.[51] Moreover, as the Ranking Member of this committee, you also wield influence over the agenda of the committee.

On the other hand, Chairman Jeb Hensarling of the Financial Services Committee places housing policy higher on his agenda. Specifically, Congressman Hensarling has endorsed reforms to the nation's housing finance system by winding down government-sponsored enterprises Fannie Mae and Freddie Mac. Hensarling argues this policy would make the housing finance system more fair and in line with his free market ideology.[52] But eliminating the GSEs would subsequently eliminate the funding stream for the National Housing Trust Fund and increase pressure on other sources of affordable housing production and preservation.

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[50] Maria Cantwell, "Cantwell, Hatch Continue Fight for More Affordable Housing, Introduce Additional Comprehensive Legislation to Expand and Reform Development of Affordable Housing," July 14, 2016.
[51] Andrew Aurand, et al, "The Gap: Affordable Housing Gap Analysis 2016," *National Low Income Housing Coalition*.
[52] Kerri Ann Panchuck, "Hensarling in the House: Rep. Jeb Hensarling Pushes Housing Reform Center Stage," *Housing Wire,* September 4, 2013.

The final Congressional stakeholders in affordable housing policy are the heads of the Appropriations Committees. These committees control funding levels for discretionary housing programs including HOME, project-based rental assistance, and CDBG. Senate Transportation, Housing and Urban Development Appropriations Subcommittee Chairman Susan Collins has targeted the HOME program for cuts in the past, proposing to cut the program by 93 percent in order to comply with sequestration-level budget cuts.[53] Should those stricter budget caps return after the expiration of the current Congressional budget deal, HOME could be a target for cuts.[54]

For the tax-related components of affordable housing policy, the incoming administration does not have a strong position on LIHTC. As a candidate, President-elect Trump released a tax reform proposal without addressing the credit.[55] But, the plan did specifically call for tax reform to be revenue neutral through the elimination of tax expenditures to pay for rate cuts. Therefore, LIHTC and its cost of $85 billion over 10 years could be used to reach the rate targets set by the White House.[56]

In statements since his nomination, Treasury Secretary designee Stephen Mnuchin stated that tax reform was one of his and the Trump Administration's top priorities. He specifically called for a 21 percent cut to the corporate income tax.[57] Even if this plan did not alter LIHTC, corporate tax cuts at that level could limit the usefulness of the credit

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[53] "Senate Committee Passes Sequester-Constrained THUD Bill," *National Low Income Housing Coalition*, June 29, 2015.
[54] Seung Min Kim, "Congress Passes Budget Deal," *Politico,* October 30, 2015.
[55] "Tax Reform That Will Make America Great Again," *Donald J. Trump for President*.
[56] "The Tax Break-Down: The Low-Income Housing Tax Credit," *Committee for a Responsible Federal Budget*, November 7, 2013.
[57] Elizabeth Gurdus, "Trump's Treasury Pick Says He Wants to Slash Taxes Across the Board," *CNBC*, November 30, 2016.

for corporations using it to shelter tax liability.[58] This could result in a reduction of affordable housing projects and decreases in affordable housing stock.

President-elect Trump's choice to lead the Department of Housing and Urban Development, Dr. Ben Carson, does not have a background in affordable housing policy, and could be considered a blank slate heading into this position. In previous statements, Dr. Carson has spoken against government assistance programs and could be skeptical of rental assistance.[59]

Outside of government, there are a number of influential groups that shape affordable housing policy. The National Low Income Housing Coalition (NLIHC) is a membership group consisting of state and local affordable housing advocates and practitioners. The group's mission is to help provide affordable and decent housing to all people regardless of their income. According to the coalition, their main areas of advocacy are "to preserve existing federally assisted homes and housing resources, expand the supply of low-income housing, and establish housing stability as the primary purpose of federal low income housing policy."[60]

In order to achieve those goals, NLIHC lobbies and partners with federal officials on affordable housing policy initiatives they believe further their organization's mission. For example, NLIHC is working with local stakeholders to help implement the National Housing Trust Fund as those funds become available to states.[61]

The Heritage Foundation, an influential conservative think tank, could also affect the debate over affordable housing programs in the new administration. Throughout the

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[58] Kristin Broughton, "Prospect of Tax Reform Upends Affordable Housing Finance," *American Banker,* January 12, 2017.
[59] Trip Gabriel, "Trump Chooses Carson to Lead HUD," *New York Times*, December 5, 2016.
[60] "About Us," *National Low Income Housing Coalition.*
[61] "National Housing Trust Fund Model Allocation Plan," *National Low Income Housing Coalition.*

Trump transition period, the Heritage Foundation played a major role in staffing their future government and presumably will maintain significant policy input following the inauguration.[62] Heritage traditionally supports providing more control to state and local governments for affordable housing policy. Their 2016 budget blueprint proposed scrapping much of HUD to facilitate this. They also proposed ending a federal government role in the secondary mortgage market, halting Fannie Mae and Freddie Mac's revenue to the National Housing Trust Fund.[63]

Another influential outside entity in housing policy are politically active hedge fund investors in Fannie Mae and Freddie Mac stock. Because the entities remain in conservatorship, these investors are not realizing financial windfalls from their stock. However, hedge fund managers such as prominent Trump supporter John Paulson could work with the President-elect to change policy on the GSEs.[64] That poses another threat to the funding for the National Housing Trust Fund should any policy changes affect those contributions.

Policy Proposal

The goal of this policy proposal is to decrease the deficit of extremely low-income housing units by five percent. This goal may seem modest, but given the aforementioned obstacles to affordable housing policy due to the current policies and politics, it is a step in the right direction. In order to achieve that goal, the proposal would protect and expand the Low-Income Housing Tax Credit by increasing the amount of

[62] Katie Glueck, "Trump's Shadow Transition Team," *Politico*, November 22, 2016.
[63] "Blueprint for Reform: A Comprehensive Policy Agenda for a New Administration in 2017," *Heritage Foundation*, 2016.
[64] Joe Light, "Fannie and Freddie Investors Cheer Trump on Hopes of Policy Change," *Bloomberg*, November 9, 2016.

credits available, making reforms to the program to target extremely low-income persons, and preventing a cut in the corporate tax rate that would make the credit less valuable to developers.

The proposal would be authorized by introducing and passing an amendment to a Republican tax reform package. This amendment would contain two main provisions. The first would be to keep the top corporate income rate at its current level 35 percent.[65] Should the tax reform package keep the corporate rate the same contrary to statements by Republican tax writers and President-elect Trump, this provision will be unnecessary.

Next, the amendment would insert the Affordable Housing Credit Improvement Act of 2016 into the tax reform legislation. This amendment alters the Low Income Housing Credit, Section 42 of the Internal Revenue Code of 1986.[66] The bill both expands LIHTC credits available to states, and makes reforms to the program to better serve all types of low-income renters. Specifically, the amendment would phase in over five years a 50 percent increase in credits by per capita, and increase the small state minimum.[67] This is based on the current calculation of allocations, where each state receives credits based on the per capita amount of $2.35, with a small state minimum of $2.69 million. It also maintains the current system of allocations, where state housing finance agencies are allocated the credits and distribute them based on a state allocation plan developed within an IRS regulated framework.[68]

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[65] Kyle Pomerleau and Emily Potosky, "Corporate Income Tax Rates Around the World, 2016," *Tax Foundation*, August 18, 2016.
[66] Affordable Housing Credit Improvement Act of 2016, S. 2962, 114th Congress.
[67] Affordable Housing Credit Improvement Act of 2016, S. 2962, 114th Congress.
[68] Ed Gramlich, "Low Income Housing Tax Credit Program," *National Low Income Housing Coalition*, 2014.

That provision contains the cost of the proposal in lost revenue to the bill. Under this reform, the cost of LIHTC will be $127.5 billion over 10 years, an increase in $42.5 billion over current policy.

Moreover, the amendment alters the income requirements for LIHTC units that developers must build. In addition to the traditional financing option where developers set-aside 40 percent of a building's units to be affordable at 60 percent AMI,[69] the bill allows the affordable units to average 60 percent AMI.[70] This reform, also referred to as "income averaging," enables developers to offer affordable units to a wider range of applicants, and specifically offer units for extremely low-income renters.[71]

Finally, the amendment makes permanent a 4 percent minimum credit rate for LIHTC acquisition projects, which provides a fixed rater for these smaller projects. This would provide additional certainty for smaller developers who hope to rehabilitate a building to become a LIHTC property.[72] Finally, all aspects of this amendment would go into effect on January 1, 2018, to provide certainty for the rest of the tax year.

You can offer this amendment during the Senate Finance Committee Markup of this tax reform legislation. Per Senate Majority Leader McConnell, Congressional Republicans plan to use the expedited budget reconciliation process to enact tax reform.[73] This process, authorized by the Congressional Budget Act of 1974,[74] utilizes the

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[69] Ed Gramlich, "Low Income Housing Tax Credit Program," *National Low Income Housing Coalition*, 2014.

[70] Affordable Housing Credit Improvement Act of 2016, S. 2962, 114th Congress.

[71] "LIHTC Income Averaging," *New York Housing Conference*, 2015.

[72] "Low-Income Housing Tax Credits: Affordable Housing Investment Opportunities for Banks," *Office of the Comptroller of the Currency*, April 2014.

[73] Ryan Rainey, "Tax Reform Coming via Budget Reconciliation in 2017, McConnell Says," *Morning Consult*, December 12, 2016.

[74] *Congressional Budget and Impoundment Control Act of 1974*, Public Law 93-344, U.S. Statutes at Large 88, (1974) 297.

Congressional budget process to create privileged Senate-consideration of tax or spending related legislation.

The Senate Finance Committee, on which you serve, drafts tax reform legislation to meet the reconciliation instructions.[75] As a member of this committee, you could offer this amendment during the committee markup of the tax reform reconciliation bill. Should the amended reconciliation bill become law, the Internal Revenue Service would enforce these changes to the tax code.

Policy Analysis

Advantages

1. This policy protects LIHTC as a viable government program to construct affordable housing stock. In 2014, LIHTC enabled the creation of nearly 100,000 affordable housing units.[76] Given the existing gap in affordable housing stock, LIHTC is a stable source of new affordable housing stock in every state. This proposal helps ensure its continued viability by protecting the value of LIHTC as a tax shelter.

LIHTC relies on a higher corporate tax rate to maintain the value of the credit as a carrot or incentive for investors. Based on the tax reform proposals discussed by Republican stakeholders, it is likely that this bill would decrease the usefulness of LIHTC. Private sector analysts demonstrated that a reduction of the corporate tax rate to 15 percent could reduce yearly LIHTC equity by $2.2 billion and reduce the amount of

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[75] "Policy Basics: Introduction to the Federal Budget Process," *Center for Budget and Policy Priorities*, February 17, 2016.
[76] Donna Kimura, "LIHTC Numbers Decline," *Affordable Housing Finance*, September 15, 2016.

units built by 16,000.[77] This amendment would protect against this reduction in affordable housing stock production by preserving the current value of the credits for investors.

2. The increase in housing credits available to states would grow the amount of housing units built each year. According to Senator Maria Cantwell, Ohio would construct over 12,000 additional affordable units due to the credit increases in this policy. Moreover, the proposal would build an additional 400,000 units over ten years nationwide.[78] This would be a major step towards filling the gap of 7.4 million affordable units across the country, and meet your goal of decreasing the deficit of affordable units by over five percent.[79]

3. Increasing affordable housing stock would make it easier for low-income persons to find affordable housing. Greater housing affordability creates socio-economic benefits for society. By increasing the amount of available affordable housing stock, this policy would improve health outcomes for low-income renters.[80] The cited literature review highlighted multiple studies that examined health outcomes for low-income renters with and without access to affordable housing and rental assistance. Those receiving subsidized housing had better health outcomes than those without. By increasing the amount of affordable hosing stock, this policy will subsequently approve outcomes in the communities where affordable housing is more accessible.

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[77] Dirk Wallace and Michael Novogradac, " Tax Reform Could Significantly Alter LIHTC Market," *Novogradac and Company*, December 29, 2016.

[78] Senator Maria Cantwell, " As Rents Skyrocket and America's Housing Crisis Grows, Cantwell, Hatch Introduce Bill to Expand Development of Affordable Housing," May 19, 2016.

[79] Andrew Aurand, et al, "The Gap: Affordable Housing Gap Analysis 2016," *National Low Income Housing Coalition*, May 25, 2016.

[80] Acevedo-Garcia, Dolores, et. al., "Does Housing Mobility Improve Health?" *Housing Policy Debate*, Volume 15 Issue 1, 2004.

4. The income averaging provisions in this amendment will create additional affordable housing stock specifically targeted at extremely low-income renters. Under current law, LIHTC developments currently are only required to offer affordable units at either 50 or 60 percent AMI. Income averaging creates the option for developments to provide affordable units to the population where the need is greatest, but is not as widely served by LIHTC.[81]

For comparison, HUD is required to provide Housing Choice rental assistance vouchers to those making at or less than 30 percent AMI.[82] Although 43 percent of LIHTC units still this extremely low-income renters, the cited lack of units available for this population suggests that more targeted investments are needed. Additionally, because most of the extremely low-income renters in LIHTC units are utilizing rental assistance, they may be unable to afford their unit if that subsidy shrunk or they became ineligible.[83] While it will be up to individual developers to determine which financing and income options they will pursue, any increase in stock for this population is an advantage for this policy.

5. By increasing the construction of affordable housing units through LIHTC, this policy will create jobs in Ohio and across the country. According to the National Association of Home Builders, LIHTC developments create 122 jobs for every 100 units. Therefore, this amendment would enable the creation of nearly 4.9 million jobs over 10 years, in addition to the jobs already created by the program.[84] That study also showed

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[81] "General Explanation of the Administration's Fiscal Year 2017 Revenue Proposals," *Department of the Treasury,* February 2016.
[82] "Housing Choice Vouchers Fact Sheet," *Department of Housing and Urban Development*.
[83] "What Can We Learn About the Low-Income Housing Tax Credit Program by Looking at the Tenants?" *Furman Center for Real Estate and Urban Policy at New York University*, October 2012.
[84]"The Local Impact of Typical Housing Tax Credit Developments," *National Association of Home Builders*, March 2010.

that in addition to short-term construction jobs, 30 jobs per 100 units, or 1.2 million jobs from this amendment, will be preserved in the community due to economic activity from residents.

6. By maintaining the current top corporate income tax rate at 35 percent, this amendment preserves fairness and progressivity in the tax code. Corporate profits are currently near an all-time high, not only enriching those businesses but those who own them.[85] The distribution of corporate income to the very wealthy also shows that the corporate tax is an essential component of our progressive income tax system.[86]

A higher, or status quo, corporate rate counteracts the growing level of income inequality in the United States during recent decades. According to the Economic Policy Institute, income inequality increased by 23.2 percent from 1979 to 2007. Their research also demonstrates that the federal tax system reduced this growth in inequality by 17.1 percent in 2007.[87] Reducing the corporate income tax rate would likely result in an increase in income inequality.

7. Improving housing affordability, and increasing available affordable housing, improves economic mobility among low-income persons. The previously presented evidence highlights the hardships faced by those burdened by unaffordable housing costs. Providing greater access to affordable housing makes it easier for these low-income persons to rise economically in combination with other important services.[88] Moreover, research shows that LIHTC is particularly effective in helping to revitalize lower-income

[85] "The Problem with Profits," *The Economist*, March 26, 2016.
[86] "The Distribution of Household Income and Federal Taxes, 2010," *Congressional Budget Office*, December 2013.
[87] Andrew Fieldhouse, "Rising Income Inequality and the Role of Shifting Market-Income Distribution, Tax Burdens, and Tax Rates," *Economic Policy Institute*, June 14, 2013.
[88] Paula Blumenthal and John McGinty, "Housing Policy Levels to Promote Economic Mobility," *Urban Institute*, October 2015.

neighborhoods, which are areas where economic mobility may be most difficult to achieve. This is seen in lower crime rates, greater diversity, and an increase in housing prices boosting the economy of low-income neighborhoods.[89]

8. Due to the shrinking size of discretionary housing programs, expanding LIHTC credits to build additional units would provide long-term certainty in the affordable housing marketplace. Under the Budget Control Act, defense and non-defense discretionary spending are both capped and subject to "across-the-board" spending cuts. As Figure 2 shows, this is causing non-defense discretionary spending, to shrink as a size of the economy.

Should current policy continue, this part of the federal budget would fall to its smallest level as a share of the economy in ever.[90] Housing policies such as HOME and CDBG are seeing similar declines as part of this broader trend. For example, HOME funding has fallen from $2.05 billion in 2009 to $1.03 billion in 2016. Likewise, CDBG funding shrunk from $4.06 in 2009 to $3 billion in 2016.[91]

Should this trend continue, state and local governments will have fewer resources to meet the growing demand for affordable housing. By increasing the amount of LIHTC credits available to states, this policy provides another option for them to construct affordable housing with private financing. Moreover, this tax policy does not require annual appropriations as discretionary housing policies do. This improves the efficiency of the planning process for local officials, as they have certainty over the credits available

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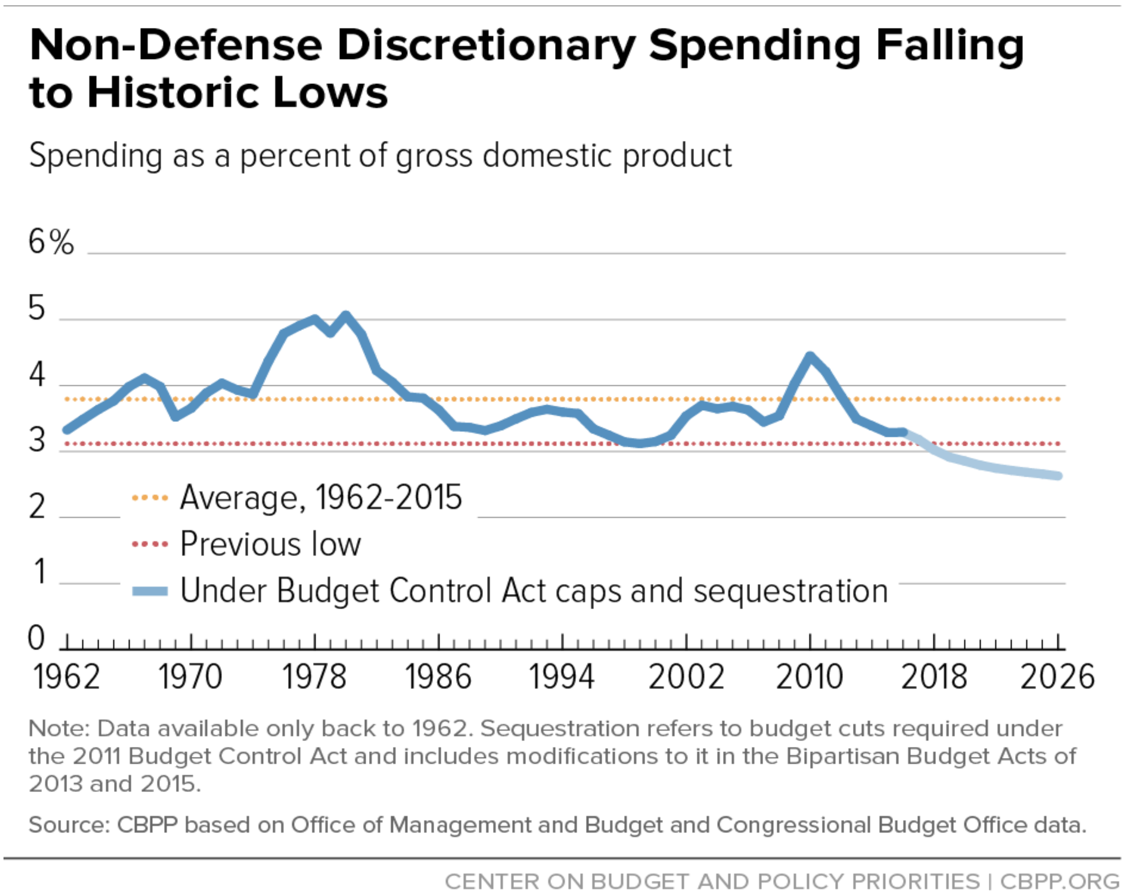
[89] Rachel Diamond and Tim McQuade, "Who Wants Affordable Housing in their Backyard? An Equilibrium Analysis of Low Income Property Development," *Stanford Graduate School of Business*, November 2016.

[90] "Policy Basics: Non-Defense Discretionary Programs," *Center for Budget and Policy Priorities*, February 18, 2016.

[91] Isaac Shapiro, et al, "Funding for Housing, Health, and Social Services Block Grants Has Fallen Markedly Over Time," *Center for Budget and Policy Priorities*, March 24, 2016.

to them. Given the potential uncertainty of the appropriations and budgeting process for other housing programs, this is an advantage to using LIHTC to build affordable housing stock.

Figure 2



Source: Center for Budget and Policy Priorities[79]

Disadvantages

1. The current top corporate tax rate is substantially higher than many other international competitors. This policy would keep this status quo in place. Our higher

corporate rate means that American companies pay a higher rate on their profits than competitors that operate in lower-tax countries. Currently, the United States top rate of 35 percent is over 15 percent higher than the average of the other 34 OECD nations.[92] According to the National Association of Manufacturers, this higher rate encourages firms to invest overseas to allow their profits to be taxed at a lower rate. This in turn makes domestic manufacturers less competitive than multinationals that produce goods overseas.[93] For consumers, this can mean higher prices on goods from these domestic manufacturers as they attempt to make up lost profits.

In addition to simply being higher than our competitor's rates, tax analysts argue that our code is less competitive than nearly any other industrialized country due to rules that incentivize companies to keep operations and dollars overseas to avoid U.S. taxes. For U.S. multinationals that earn income overseas, current tax law does not require them to pay income taxes on those earnings until they are repatriated into the United States. The so-called deferral rule therefore provides an additional incentive for earnings to stay outside of the United States, keeping money out of the economy.[94] By keeping the corporate rate at 35 percent, your amendment would not address this problem and keeps dollars outside of the U.S. economy.

2. Research suggests that your amendment to increase and improve LIHTC may not be the most cost-effective and efficient program to increase the stock and availability of affordable housing. First, the cost-per affordable unit built by LIHTC projects is higher

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[92] Duanjie Chen and Jack Mintz, "Corporate Tax Competitiveness Rankings for 2012," *University of Calgary*, September 2012.
[93] "The United States Needs a More Competitive Corporate Tax System," *National Association of Manufacturers*, 2015.
[94] Reuven Avi-Yonah and Nicola Sartori, "Symposium on International Taxation and Competitiveness: Introduction and Overview," *University of Michigan*, 2012.

than other government affordable housing programs. Based on the previously cited number of units constructed in 2014, and the lost revenue from the tax credit, it costs roughly $86,000 to construct a new unit of affordable housing using LIHTC. However, the HOME program creates or preserves units at the cost of $26,000 per unit, substantially smaller.[95] If the primary goal of this policy is to increase the stock of affordable housing units for your constituents and others in need, other policies may build more units for the same cost.

Moreover, subsidies to encourage the construction of housing units may be less efficient than tenant-based subsidies. Studies show that project-based programs, including LIHTC, accrue excess costs due to costs such as construction that are not applicable for tenant-based programs.[96] Even when comparing subsidized construction projects to unsubsidized projects, studies show developers are incentivized to build inefficient and oversized buildings by the LIHTC subsidy.[97]

3. LIHTC's reliance on private investment makes it more vulnerable to economic downturns, when affordable housing stock is most needed. During the Great Recession, prices for LIHTC credits crashed along with the rest of the housing market, stalling the production or preservation of affordable housing stock. This can be attributed to the small amount of potential LIHTC investors, who were particularly hit hard during the

[95] "Building HOME: The HOME Investment Partnerships Program's Impact on America's Families and Communities," *The HOME Coalition*, 2015.
[96] Edgar Olson, "Getting More from Low-Income Housing Assistance," *Brookings Institution*, September 2008.
[97] Bree Yang, "Cost Inefficiency in the Low-Income Housing Tax Credit: Evidence from Building Size," *Xavier University*, March 26, 2015.

recession. Investing the federal government's limited resources in a program that is heavily reliant on market factors is a risk of this amendment.[98]

4. This policy does not correct underlying incentive problems within LIHTC that limit benefits for the neediest households. While the income averaging provision of this amendment will provide additional financing options for developers, LIHTC developers can still use federal incentives to build properties that do not house the most vulnerable extremely low-income renters. Studies show the existing financing options can result in mostly housing those near 50 percent AMI for an area, who are not renters facing the most acute housing unaffordability. Not including additional incentives or sticks in this policy to drive developers to offer units at greater levels of unaffordability may limit the effectiveness of the bill at targeting the lowest income renters.[99]

Political Analysis

When considering the political implications of this high-profile amendment, your 2018 reelection campaign should be the highest priority. The following political implications, both pros and cons, are presented with that in mind.[100] Early polling against your likely Republican opponent, Josh Mandel, shows you as a clear but not overwhelming favorite at 45-36.[101] Given the long timeframe away from the election date, strengthening your standing with voters is a must.

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[98] "The Disruption of the Low-Income Housing Tax Credit Program: Causes, Consequences, and Proposed Correctives," *Joint Center for Housing Studies of Harvard University*, December 2009.

[99] Shilesh Muralidhara, "Deficiencies of the Low-Income Housing Tax Credit in Targeting the Lowest-Income Households and in Promoting Concentration Poverty and Segregation," *Law and Inequality: A Journal of Theory and Practice*, 2006.

[100] Henry Gomez, "Sen. Sherrod Brown taps Justin Barasky to Manage Re-Election Campaign," *Cleveland Plain Dealer*, January 9, 2017.

[101] Tom Jensen, "Brown Early Favorite; Kasich Down with GOP, Up With Dems," Public Policy Polling, July 29, 2016.

Pros

This policy advances your political interests in the Senate and for your campaign in 2018. Not only is rental housing unaffordability a growing problem nationally, it acutely affects your constituents. In Ohio, 48.4 percent of rental households are considered rent burdened, meaning they pay over 30 percent of their gross income on rent. Moreover, 24 percent are severely rent burdened, spending over 50 percent of their income on rent.[102] According to HUD, renters meeting those definitions are less able to affordable other necessities due to high housing costs.[103] Advancing this policy and increasing the construction of affordable housing stock will help bring down the amount of Ohioans with unaffordable housing budgets. As the Statement of the Problem section noted, in Ohio there are only 38 units of affordable housing for every 100 extremely low-income renters,[104] meaning that this proposal directly targets your constituents that are unable to find affordable rental housing.

More specifically, the counties in Ohio that are most unaffordable for residents and most in need of affordable rental stock are vital to your reelection efforts. When examining the counties in Ohio that have the highest amount of severely cost-burdened renters, you carried those same counties in your 2012 reelection campaign. According to the Ohio Housing Finance Agency, the counties with the highest percentage of severely cost-burdened renters are Athens, Portage, Cuyahoga, Lucas, and Pike counties.[105] You won each of these counties in 2012,[106] and won the election overall by five points. These

[102] "Ohio Housing Needs Assessment," *Ohio Housing Finance Agency*, May 3, 2016.
[103] "Rental Burdens: Rethinking Affordability Measures," *Department of Housing and Urban Development*.
[104] "The Gap: The Affordable Housing Gap Analysis 2016," *National Low Income Housing Coalition*, March 28, 2016.
[105] "Ohio Housing Needs Assessment," *Ohio Housing Finance Agency*, May 3, 2016.
[106] "Ohio Senate Election Results 2012," *NBC News*.

electoral results demonstrate that by implementing this policy you will be positively affecting potential supporters in valuable counties.

Moreover, there is evidence that voters support efforts to make housing more affordable. In a 2016 poll conducted by Enterprise Community Partners and Ipsos Public Affairs, 85 percent of respondents supported their leaders working to create and preserve affordable housing.[107] The polls findings were not specific to certain affordable housing programs, but could demonstrate support for LIHTC given the correct messaging plan.

In addition to directly focusing on the needs of your constituents and voting base, this proposal is popular with voters because it prevents a cut in the corporate tax rate. A 2015 Gallup poll of Americans found that 69 percent believe that corporations pay too little in income tax. That same poll found that only 9 percent believed corporations were paying too much in income tax.[108] In a more recent poll, only 39 percent of Trump voters favored lowering taxes on big businesses and corporations. That same poll did find that a small majority of Americans (53 percent) and a larger majority of Trump voters (66 percent) believe the President-elect's tax reform proposal will benefit them.[109]

These polls show the political benefits of offering your proposal as an amendment to the tax reform package. While there is no direct evidence to support your specific amendment, the general support for affordable housing programs and opposition to corporate tax rate cuts show voters can be persuaded to accept higher corporate rates to reserve housing programs.

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[107] "Americans Support Affordable Housing, Worry About Housing Costs," *Make Room USA*, May 31, 2016.
[108] Justin McCarthy, "More Americans Say Low-Income Earners Pay Too Much in Taxes," *Gallup*, April 15, 2015.
[109] "American's Views on Domestic Priorities for President Trump's First 100 Days," *Harvard T.H. Chan School of Public Health*."

Another political benefit to offering this amendment and receiving a vote on it is forcing Republican supporters of the plan to go on the record supporting the most unpopular part of a larger tax reform package. That makes it more difficult to defend a package as a broad tax cut for the whole country, when in reality it largely benefits corporations and wealthy individuals. Given Majority Leader McConnell's stated intention to use the reconciliation process that does not require Democratic support for the bill, it is politically beneficial for you to cause political pain for supporters of the bill. That weakens the Republican party brand which helps your reelection, and makes it more difficult to pass this bill which based on available information would harm the production of affordable housing through LIHTC.

In the Finance Committee, this proposal is politically advantageous because of the existing support for the LIHTC portion of the amendment. In addition to Chairman Hatch, who introduced the legislation this proposal is based on, Republican Senators Portman and Cassidy[110] are cosponsors of the bill in the 114th Congress.[111] This policy has two main political advantages that stem from this committee support.

First, it draws attention to the committee members' support for LIHTC and the potential negative impacts lowering the corporate rate could have on the program. Should the Republican majority on the committee choose to cooperate with committee Democrats, preserving LIHTC could be a point of agreement. Even accepting a portion of the amendment, the reforms and expansion of LIHTC, would provide some level of the aforementioned benefits despite a less useful credit for tax savings.

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110 "Membership," *United States Senate Committee on Finance.*

111 "S. 2962 – Affordable Housing Credit Improvement Act of 2016, Cosponsors," Congress.gov.

Using your position on the Finance Committee, you can negotiate that portion of the amendment for inclusion into the bill with those Republicans, notably Chairman Hatch. A 2013 Gallup poll[112] found that a majority of voters support politicians compromising in order to get things done. Therefore, taking advantage of a potential for bipartisan compromise on LIHTC in tax reform could be beneficial for your reelection campaign.

Moreover, should Republicans seek to avoid the reconciliation process you would have leverage as they seek to gain 60 votes in the Senate. Under the Byrd rule for reconciliation, any reconciliation bill cannot have deficits outside of the 10-year budget window that are not offset.[113] For tax reform, an example of this constraint were the Bush tax cuts, which "sunsetted" after 10 years.[114] A broader bipartisan compromise to waive the Byrd rule would eliminate roadblocks to passage. Should Republican leadership seek this compromise, this amendment would act as leverage to earn your vote for the package.

If Republican leadership, as they've already indicated, uses reconciliation and does not attempt serious outreach to Democrats, this amendment increases the political cost to them to pass tax reform. Using your positions as Banking Committee Ranking Member and a Finance Committee member gives you multiple venues to push your amendment and highlight the clear choice being made to cut taxes for corporations at the expense of low-income families. Politically, this should make the reform less popular based on existing polls, creating a greater cost to members that support the reform. As

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[112] Frank Newport, "Americans' Desire for Gov't Leaders to Compromise Increases," *Gallup*, September 23, 2013.
[113] "Reconciliation 101," *Committee for a Responsible Federal Budget*, December 6, 2016.
[114] Bill Heniff Jr., "The Budget Reconciliation Process: The Senate's 'Byrd Rule,'" *Congressional Research Service*, September 13, 2010.

this evidence indicates, offering this amendment appeals to your base voters in Ohio while also causing political damage to Republicans in favor of tax cuts for the wealthy. Finally, it also gives you multiple options during the tax reform debate to maximize political benefits based on Republican strategies.

Cons

This strategy also contains political downsides that should be considered. Most importantly, in its current form the amendment is dead on arrival in the Senate. The proposals from Speaker Ryan and President-elect Trump each include a substantial corporate rate cut. They will not accept this amendment to keep the corporate rate at 35 percent and abandon their efforts to cut corporate taxes. That position is further strengthened by the ability to use reconciliation and not needing Democratic votes for final passage.

If tax reform is a large part of the agenda for the new Congress, focusing your strategy on an amendment that will not pass is politically risky. There is potential for you to be viewed as a partisan spoiler by your constituents at a time when they are looking for the cooperation in Congress. That is troubling because of the potentially popular portions of the tax package. Gallup polling from last year showed that 57 percent of people, the highest level since the 2001 Bush tax cuts, believe their taxes are too high.[115] Both the Trump and Ryan proposes include cuts in the individual income tax rate that could be viewed favorably by the voters who view their taxes as too high. Focusing your message on the corporate rate may miss the mark for voters more concerned with their own pocketbook than economic fairness.

[115] Jim Norman, “Most Americans in 15 Years Say Their Tax Bill is Too High,” *Gallup*, April 14, 2016.

Another political downside of this proposal is the salience of LIHTC for most Ohio voters. Given that corporate and individual rates, and larger tax expenditures will likely dominate the political conversation surrounding tax reform, using this venue to focus on LIHTC and affordable housing could result in your amendment being drowned out of coverage. If this amendment does not gain sufficient traction, it makes it less likely that affordable housing production will be an important consideration in tax reform. Even if your amendment is not adopted, drawing attention to this issue and increasing its salience could result in a tax package that is more helpful to the affordable housing shortage.

Next, President–elect Trump's strong electoral performance in Ohio presents a risk of opposing him too strongly on an issue where much of the public agrees with him. The President-elect won Ohio by eight points,[116] the largest margin of victory in the state for a presidential candidate this century.[117] Additionally, a strong majority of voters believe that Democrats in Congress should work with the President-elect.[118] Should the President-elect follow through on his promise to make tax reform a top legislative priority early in his Presidency, you risk alienating Trump voters you will need to win in order to secure reelection. Even if you do not fully embrace the proposal, taking a strong opposition stance if Republicans use reconciliation could make it more difficult to persuade these voters in 2018.

Next, offering this amendment could make you a target for a number of well-funded interests that support tax reform. For example, the Chamber of Commerce is

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[116] "Ohio Election Results," *New York Times*.
[117] "Voting and Elections Commission," *CQ Press*.
[118] Jonathan Easley, "Poll: Americans want Democrats to Work with Trump," *The Hill*, February 18, 2017.

supportive of the broad principles of a Republican tax plan,[119] and spent nearly $30 million in the 2016 election.[120] While the group was unlikely to support you in your reelection, they endorsed your opponent in 2012,[121] the Chamber could spend a portion of their considerable financial resources fighting your reelection. Strongly advocating against a corporate rate cut could make you a key target for the Chamber and other pro-tax reform groups that are planning to run ads in the 2018 election.

Recommendation

Based on the previous information, it is recommended that you introduce this policy proposal as an amendment to tax reform in the Senate Finance Committee. While there are downsides and political risks to this proposal, it meets your overall policy goal, while also serving your political interests in advance of your reelection.

Most importantly, enacting this policy would increase the number of affordable housing units available to low-income renters. By building an additional 400,000 units over 10 years through an expansion of LIHTC, this policy achieves more than a five percent decrease in the gap of affordable units in America. Given the socio-economic costs of a shortage of affordable homes previously described, providing additional affordable units and subsequently making fewer people rent burdened is a policy benefit.

Moreover, this policy provides benefits to the renters most in need, extremely low-income renters. Current LIHTC deals do not give developers sufficient options to create units at this level of affordability as part of their tax credit agreement. Allowing

[119] Thomas Donohue, "Getting Tax Reform Done – and Done Right," *U.S. Chamber of Commerce*, March 13, 2017.
[120] "U.S. Chamber of Commerce: Outside Spending Summary 2016," *Open Secrets*.
[121] Josh Mandel, "State Treasurer of Ohio Josh Mandel Endorsed by U.S. Chamber of Commerce," May 16, 2012.

income averaging should increase the availability of LIHTC units to extremely low-income renters.

The corporate tax provision of your amendment also protects LIHTC development from the uncertainty of a lower corporate tax rate that would diminish the value of the credit for developers. Beyond the policy benefit of protecting the value of the credits for the long-term, this policy also highlights the unpopularity of cutting taxes for large corporations.

Another large political benefit of this proposal you should consider is its targeted benefits to low-income Ohioans in counties that are essential to your reelection. Evidence shows that voters in those counties are having the most difficulty securing affordable housing. When selling this proposal to your constituents, these two benefits allow you to argue that your priority in tax reform is ensuring that all Ohioans can affordable decent housing, and not giving a tax break to profitable corporations. That argument successfully builds on the policy strengths of your proposal while maximizing the political benefits.

The largest downside of this proposal is it will not be accepted by Republican leadership in the Finance Committee or on the Senate floor because of the corporate tax provision. This is the case for a reconciliation bill, where Democratic votes are not needed, and a bipartisan tax bill due to the stated goals of the President-elect and Speaker. Politically, you risk being painted as an obstructionist to tax cuts for individuals by offering an amendment doomed to fail. On the policy, you also risk not being able to positively reform the bill with a bipartisan amendment to increase the production of affordable housing stock. As a member of the Finance Committee, you are sacrificing an opportunity to amend the bill in a more favorable committee markup session.

For this policy specifically, it is not the most fiscally efficient manner to increase construction of affordable housing stock. Increasing funding to capital grant programs like HOME would build or preserve more affordable housing units at a lower cost. If meeting the goal to build more units is primary above all else, this must be considered.

Despite those political risks and policy disadvantages, undertaking this proposal is still your best opportunity to increase affordable housing stock production in a politically beneficial manner. If Republican leadership follow through on their intentions to pursue tax reform this year, it is a significant opportunity to draw attention to this problem. Moreover, given the potentially detrimental effects of tax reform to the production of affordable housing, your position as the Banking Committee Ranking Member makes you a logical fit to highlight this consequence.

The policy implementation tool likely to be used, reconciliation, makes it less painful that your amendment would not be accepted. This process eliminates the need for bipartisanship, and it is unlikely your amendment would be accepted as is with the corporate tax provision in a reconciliation bill. However, by drawing attention to the harmful effects to LIHTC from this likely tax reform package, you could convince Republican committee members including Chairman Hatch to include parts of it in a bipartisan bill.

Ultimately, the political benefits in advance of your reelection in Ohio make this amendment a logical choice for a high profile piece of legislation. Highlighting the policy benefits to your base voters and your efforts to stop a corporate tax cut should resonate with your constituents.

Given the fraught environment for housing programs under a Trump administration, it is your responsibility as the ranking Democrat on the committee of jurisdiction for housing to protect these programs these important programs. This proposal is imperfect, but it is unlikely a perfect policy exists in this environment. This policy is designed to provide tangible benefits to your constituents, and draws attention to the ramifications of tax reform for housing. Working to protect LIHTC as a pipeline of affordable housing construction with this policy is a worthy goal both politically and on policy considerations.

Curriculum Vitae:

Alexander Beaton was born on November 15, 1989 in Burlington, Vermont. Alexander grew up in Vermont and still maintains strong ties to the area. He graduated in 2011 from American University in Washington, D.C. with a Bachelor of Arts in Political Science. Alexander is currently a Legislative Aide for United States Senator Bernard Sanders, with a focus on housing, transportation, and economic policy. He currently resides in Washington, D.C. with his fiancée Jillian.