CONNECTICUT HOUSING FINANCE AUTHORITY

TESTIMONY BEFORE THE HOUSING COMMITTEE

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Good afternoon Senator Winfield, Representative Butler and members of the Housing Committee, I am Karl Kilduff, Executive Director for the Connecticut Housing Finance Authority (CHFA). I am here to speak on SB 155 and provide my comments to the Committee on this piece of proposed legislation. The Authority agrees with the intended outcomes of the Bill, but strongly disagrees with the approach advocated for within it. I believe that the effects of SB 155 will make an already difficult process of allocating federal tax credits more unwieldy, fail to strike an appropriate balance for the needs of Connecticut and, in the end, make CHFA less responsive.

Raised Senate Bill 155 An Act Concerning the Allocation of Low-Income Housing Tax Credits would require CHFA to allocate the majority of Federal Low Income Housing Tax Credits (LIHTCs) into set-asides for two separate housing categories. Sixty percent of the LIHTCs would be allocated for non-age restricted developments located in "high or very high opportunity areas". Twenty-five percent of LIHTCs would be allocated for "catalytic proposals" in "moderate or lower opportunity areas." The remaining 15% of LIHTC would then be available for any other development opportunity. The proposed legislation goes on to state that any remaining unused credits from the first 2 priority allocations could be used for other projects during the application period.

Like other housing finance agencies across the country, CHFA administers the LIHTC program for housing development in the State of Connecticut. The LIHTC program is described within Section 42 of the Internal Revenue Code (26 U.S.C. Section 42) as a tax incentive program to stimulate private investments in affordable housing. It gives investors a dollar-for-dollar reduction in their federal tax liability in exchange for providing financing to develop affordable rental housing. Investors' equity contribution subsidizes low-income housing development, thus allowing subsidized units to rent at below-market rates. In return, investors receive tax credits paid in annual allotments, generally over 10 years. Without such an incentive, affordable rental housing developments are generally financially infeasible.

Credits are allocated to each state based on its population. Connecticut's allocation of 9% LIHTC for development projects is approximately $8 million annually. These credits can translate into a significant amount of equity available for development.

Projects seeking tax credits must submit an application to CHFA. At present, LIHTCs are awarded once annually through a competitive process and are oversubscribed. I can report that the most recent application round for LIHTC received requests four times greater than the amount of available credits. Projects are awarded tax credits based on the project's rating and ranking of points from the Qualified Allocation Plan (QAP), which supports the state's housing priorities as articulated in existing public policy such as the State of Connecticut Consolidated Plan for Housing and Community Development (ConPlan) and Connecticut's Plan of Conservation and Development (C&D). The development and utilization of the QAP for the allocation of tax credits is required by the Internal Revenue Code.

The QAP is reviewed and published annually for public comment and public hearings are held in order to gather stakeholder opinion on the effectiveness of the QAP. The public is also welcome to comment directly to the CHFA Board of Directors prior to the adoption of the QAP. Additionally, CHFA receives feedback and recommendations to the QAP from the Interagency Council on Affordable Housing, which is made up of State agencies and affordable housing advocates. Once the CHFA Board has approved the final document based on this feedback, the QAP is then forwarded to the Governor for signature.

The raised bill is an imperfect tool that describes absolute set-asides for tax credits which undermines the need to strike a balance to meet the diverse needs of the state for quality, safe affordable housing and effectively neutralizes public involvement in the QAP.

CHFA acknowledges that mobility is important, affordable housing opportunities should exist in a variety of areas and fostering new growth is key to that. However, we have work to do in both high and low opportunity areas. We need tools to be able to reinvest in areas which have been deprived of resources too. The QAP and allocation of LIHTC needs to be responsive and balanced to make a great difference in all parts of the State. Responsiveness will be lost with the adoption of the raised bill.

As one of only two states using set-asides within their QAP, it has been suggested that Connecticut follow the approach of New Jersey. Unfortunately, the New Jersey model of set-asides creates an added layer to an already complex and competitive process. Connecticut's allocation of LIHTC from the Federal government is nearly one-third of New Jersey's. The volume of credits in Connecticut is too small to have it driven by a set-aside process which would only dilute the efforts of the State and CHFA to provide for investments in affordable housing. Additionally and unrecognized in the set-asides of the raised bill, is the requirement of the Internal Revenue Code that ten percent of tax credits are also provided to non-profit developers. With such a small pie to begin with, Connecticut will be challenged to meet the set-asides, plus the requirements of the Internal Revenue Code, and reach a goal of being able to allocate all tax credits without returning this resource to the Federal government.

In a quick review of the 2015 QAP for New Jersey, one can see how the set-aside program works with the volume of funding available.

New Jersey		**Total Credits**	**$20,500,000**
Percentage		Urban (40%)	Suburban (60%)
50%	Family Set Aside	$4,100,000	$6,150,000
20%	Senior Set Aside	$1,640,000	$2,460,000
25%	Supportive Housing Set Aside	$2,050,000	$3,075,000
5%	Other	$410,000	$615,000

New Jersey system is a series of set-asides within a set-aside which is spread out across a number of funding rounds. The New Jersey QAP calls for 50% of all credits to be dedicated to family developments. Within that allotment, 60% is targeted for suburban development. Additional set-asides are provided for Senior and Supportive Housing developments with further set-asides within those categories for urban and suburban development.

The experience of supportive housing in Connecticut proves that scoring within the QAP will deliver results rather than set-asides. The majority of LIHTC applications currently under review included supportive housing opportunities within their developments – in both urban and suburban applicants.

The raised bill would allocate Connecticut's tax credits as follows:

Connecticut	**Total Credits**	**$8,000,000**
Percentage		
60%	Non-Age Restricted High Opportunity	$4,800,000
25%	Catalytic Proposals	$2,000,000
15%	Others	$1,200,000

Experience has shown that the average application for tax credits in Connecticut is $1.3 million per development and CHFA limits the maximum award to $1.9 million. The impact of the set-aside will limit the number of developments that can be considered. Providing for the set-aside as a part of statute, rather than working through the QAP, does not allow for CHFA to respond as situations allow.

Our efforts should be focused on developing a Connecticut-based solution to maximize our limited tax credit allocation. The QAP is the right vehicle and it will get the developer's attention as they pursue opportunities to maximize points for the scoring process. The pre-determined allocation of credits muddies the waters for the development community and adds an unnecessary bureaucratic layer to the process. Scoring applications, rather than set-asides, is a more effective approach for Connecticut.

Like many of our peer HFAs, CHFA has been critically examining our QAP to assess the impacts and outcomes of point allocations. In keeping with CHFA's normal practice, the next QAP has been under discussion for several months now. It is in this forum where CHFA can examine the impacts of points and the effect on developer behaviors. The QAP alone or the award of tax credits cannot address the local impediments to development. It cannot provide for zoning approvals or provide for a multi-family zoning regulation, it cannot provide for water or sanitary sewer lines which allow for a required level of development density. Rather, the QAP and awarding points allows developers to identify opportunities for affordable housing where zoning is responsive, infrastructure is available, and connections to employment and transit are available.

The annual process to modify the QAP is the more nimble approach which allows the Authority to respond to Connecticut's challenges and evolving development opportunities. CHFA and its Board of Directors have demonstrated a history of being responsive to the needs of the State through the QAP. Unfortunately, this bill proposes to replace the flexible, adaptable and responsive process available to CHFA in the annual QAP.

CHFA is supportive of providing opportunities across the state for low- to moderate-income residents of Connecticut. The raised bill is too narrowly focused on just the LIHTC. CHFA works in partnership with the Department of Housing, utilizes additional funding streams, to support multi-family affordable housing development. As a partnership, we are creating opportunity across the State. Additionally, CHFA's first-time home buyer program has a wide impact providing a path to homeownership for low- to moderate-income residents. Since its inception in 1969, CHFA's single family mortgage program has provided opportunities in every one of the state's 169 municipalities.

CHFA does not support any legislation that would statutorily allocate Federal Low Income Housing Tax Credits. The current QAP process allows for public comment and stakeholder feedback which informs the drafting of the QAP on an annual basis. It allows for balance in meeting the needs of Connecticut and maximizes a precious resource to develop affordable housing.

Thank you for the opportunity to provide this testimony to the Housing Committee.