

Cost/Benefit Analysis of the
**Missouri Low-Income Housing
Tax Credit Program**



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Executive Summary

This study was undertaken to examine the costs and benefits of the State of Missouri's Low-Income Housing Tax Credit (LIHTC) program. The study addresses the economic and social benefits of the credit, the relative success of its application to further the Missouri Housing Development Commission's (MHDC) mission of providing high quality, low-income housing to Missouri residents, and the return on the state's investment in providing tax credits for this purpose.

The federal LIHTC was created in 1986 to encourage private developers to invest in affordable housing through the use of tax credits as economic incentives. In 1992, increased demand for Missouri affordable housing resulted in the enactment of the Missouri Low-Income Housing Tax Credit. The Missouri LIHTC is typically awarded on a dollar-for-dollar basis with the federal LIHTC.

Economic Benefits. In analyzing the costs and benefits of the Missouri LIHTC, the study reviewed a sample of 30 projects selected from the 327 projects awarded credits in the years 2000 through 2005. Based on this review, the study's findings include:

- Each dollar of state tax credit awarded generates \$9.60 in economic activity.
- Each dollar of state tax credit awarded results in an increase in gross state product of \$5.45.
- Credits awarded during the project period generated almost \$6.5 billion of total economic impact to the state of Missouri and increased gross state product by over \$3.73 billion.
- Credits awarded during the project period generated over 41,800 full-time job equivalents as a result of increased construction activities and annual operations.
- The 327 projects awarded credits produced 21,250 units of affordable housing of which 5,675 (26.7%) were designated for seniors and the remaining 15,575 (73.3%) were for working families.
- The 327 projects are located throughout the state with 15,703 units being developed in the state's major metropolitan areas of Kansas City and St. Louis, 2,447 units developed in minor metropolitan (other metro) areas and 3,100 units developed in rural areas.
- On average, rents would increase between 18.7% and 24.3% to absorb the additional debt service needed to replace the equity generated by the LIHTC. Limited sources of alternative funding would make many projects economically unfeasible.

Trends

The study highlights certain trends currently impacting the Missouri LIHTC or that can be expected to impact it in the future:

- The excess demand for 9% credits is causing developers to design projects using the 4% credit.
- Projects designed to use tax-exempt bond financing tend to be larger projects in urban areas.
- Housing must now regularly compete for an allocation of the state's bond cap with other stakeholders with the result that fewer dollars may be available for housing.
- Federal tax guidance on certain state credit transactions is increasing and may lead to a change in how credits are made available to investors and the price investors are willing to pay.

Developer Demand for Credits. The demand by developers for an allocation of the Missouri LIHTC exceeded supply for all years under study. The ratio of 9% LIHTCs applied for to the number of credits awarded was almost 3 to 1 from 2000 to 2005. Predictably, the amount of 4% LIHTCs (credits coupled with tax-exempt bonds) awarded during this same period increased eleven-fold (from \$1.15 million to \$12.8 million) as these credits were generally non-competitive and more readily available. For example, out of the 15,703 urban units produced during the study period, 11,984 (76%) were financed with tax-exempt bonds coupled with 4% credits.

Investor Demand for Credits. Investors in Missouri LIHTCs are generally large corporations, insurance companies, financial institutions and high-income individuals. The study concludes that there is currently significant demand by investors wishing to purchase the state LIHTC, driven largely by investors seeking to manage their tax liability and earn a market rate of return on their investment. The study confirms that an established market has evolved for developers and investors to structure their state tax credit transactions

Efficiency of the Credit. The study examines the pricing of the state tax credits and concludes that there are two primary factors that impact pricing: (1) the discounted time value of money applied to the ten-year stream of credits and (2) the current federal income tax treatment of investing in housing projects qualifying for state LIHTCs. The study concludes that the value of the credit to the investor and related pricing may improve if federal legislation is enacted to allow the investor to deduct the investment related to the state LIHTC.

Social Impact. The study demonstrates that the social impact of the state tax credit is more difficult to quantify but no less important. The housing resulting from state credit subsidized projects provide working families the opportunity to better themselves economically while at the same time provide safe housing for their children. A number of studies have demonstrated that the additional costs of not providing quality affordable housing, including health care, education, homelessness, and law enforcement are significant. The Missouri LIHTC program is one of the major, if not the primary, forces in producing affordable housing for Missouri's low income population.

As more fully described in the following report, the Missouri LIHTC program provides a tangible benefit to the state in economic terms and to the citizens who utilize the affordable housing program. The benefits when viewed from both an economic and social standpoint demonstrate that Missouri's LIHTC program provides quality affordable housing and meets the mission and goals of the Missouri Housing Development Commission.

Introduction

The purpose of this report is to provide the Missouri Housing Development Commission (MHDC) with a Cost/Benefit Analysis of the Missouri Low-Income Housing Tax Credit Program. MHDC administers both the federal and state LIHTC programs and is responsible for awarding federal and state tax credits to developers in Missouri for the purpose of constructing affordable workforce housing for families and for providing affordable housing for low-income seniors in the state. Through the federal LIHTC program, the federal government provides tax credits as a means of providing equity for development and construction of affordable housing. Likewise, the state of Missouri provides a similar tax credit program that works to enhance the federal program by providing additional equity to Missouri projects.

Developers receiving an allocation of state LIHTCs utilize the equity raised from the credits to finance new construction or rehabilitation of existing housing. The tax credit is based upon a percentage of qualified development and construction costs and is generally received over a 10-year period. In essence, the state provides tax credits to developers over a 10-year period to finance and make available workforce and senior housing today, leveraging the production of housing for the state. Each year, the developer or an investor who has acquired an interest in a qualified project receives tax credits that are a dollar for dollar offset against the developer's or investor's state tax liability. In exchange for receiving the state tax credit, the developer or investor makes an investment in the development and that investment is used to pay for constructing the project. Under the Missouri program, each project must be operated in accordance with strict guidelines in terms of tenants who qualify to live in the housing. Each project is subject to yearly financial and operational oversight by MHDC and investors that help ensure quality, affordable housing over the long term. Developers and investors who do not operate their properties within strict federal and state guidelines may be denied the benefit of the tax credits.

The state tax credit not only provides housing for Missourians throughout the state, but also imparts an economic stimulus for the state, creating jobs and expanding the state and local tax base. The program offers housing for a significant workforce in the state, assists with the revitalization of inner-city and downtown areas that in many cases have been dormant for years and provides needed housing in rural counties where quality affordable housing is scarce.

This report and analysis was prepared with assistance from Missouri State University and based upon information provided by MHDC and other sources, including interviews with 16 developers to obtain information and insight into various aspects of the state's program. Many of the developers interviewed have developed multiple projects in Missouri and several had extensive experience in developing projects in states other than Missouri that do not have a state tax credit.

Special thanks is given to MHDC's staff who provided their time, expertise and experience to facilitate this study. Through countless interviews with developers and others who work closely with MHDC's staff, it became evident that their professionalism, high standards, and dedication to the success of the Missouri Low-Income Housing Tax Credit program is a major factor that sets Missouri's program apart from other states. Additionally, we would like to thank the developers for their willingness to provide feedback on the program and to participate in the interview process.

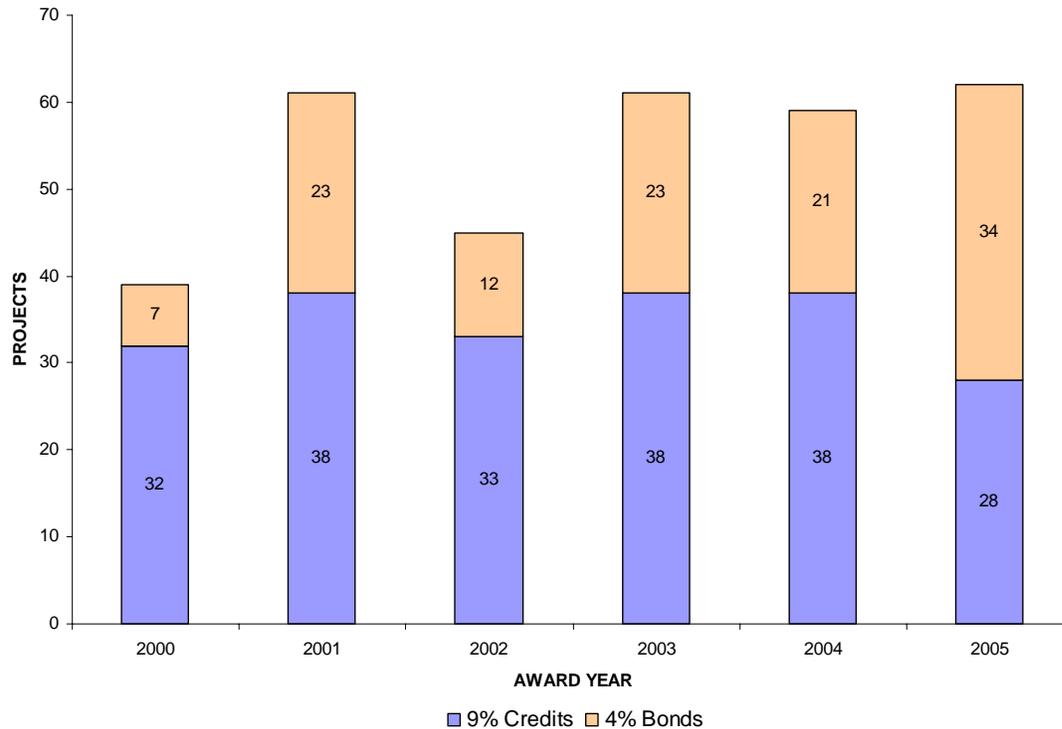
Analysis of the Missouri LIHTC Program

This study encompasses the Missouri low-income housing tax credits awarded for years 2000 through 2005. During that time period, there were 327 low-income housing projects across the state awarded Missouri LIHTCs. Included in those 327 projects were 21,250 units of affordable housing. Those

affordable units were geographically spread out across the state, including a significant number of low-income units produced outside of the Kansas City and St. Louis areas.

Number of Projects Awarded Missouri Low-Income Housing Tax Credits

FIGURE 1: PROJECTS AWARDED BY YEAR

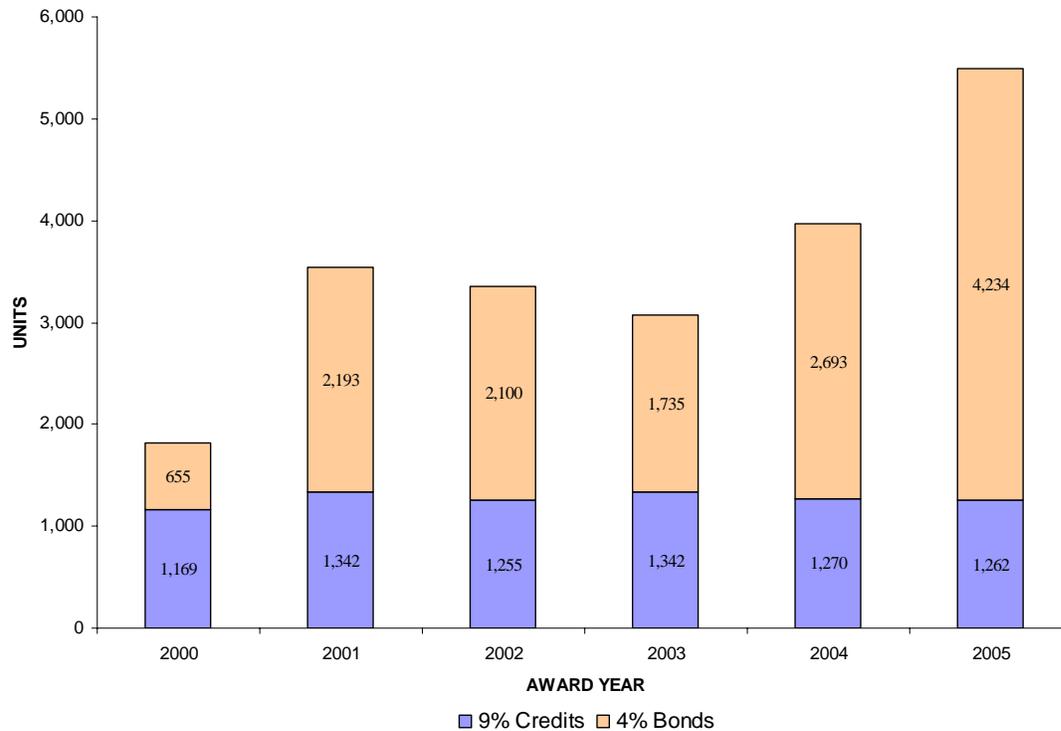


Note: The projects awarded per year for 2004 and 2005 shown in Figure 1 include projects that have completed cost certification and that are in the process of being cost certified.

Figure 1 shows the number of projects awarded by year including the number of projects financed utilizing 9% credits and tax-exempt bonds coupled with 4% credits. A total of 327 projects were awarded credits over the six-year period. The largest number of projects awarded occurred in 2005 with 62 projects, while the lowest occurred in 2000 with 39 projects awarded. Out of 327 projects, 120 were developed with tax-exempt bonds coupled with 4% credits and over 50% of the projects in 2005 utilized 4% credits. The state tax credit plays a critical role in the development of projects using tax-exempt bonds coupled with 4% tax credits, with many of these projects not being financially feasible without the state tax credit. Throughout this report references may be made to 4% bonds or 4% credits. These statements refer to tax-exempt bond projects coupled with 4% credits.

Bond volume cap allocation is critical to housing production as it allows for automatic 4% federal LIHTCs, which are not subject to the per capita limitation applied to 9% credits. While unit production of 9% projects has remained relatively constant over the six-year period, units produced with tax-exempt bonds coupled with 4% credits has increased almost six times from 2000 to 2005. However, these 4% tax credits are not available to the state without bond cap allocation. One developer estimated that the anticipated reduction of bond cap allocation to housing could result in a reduction of housing unit production by as much as 50% over the next few years.

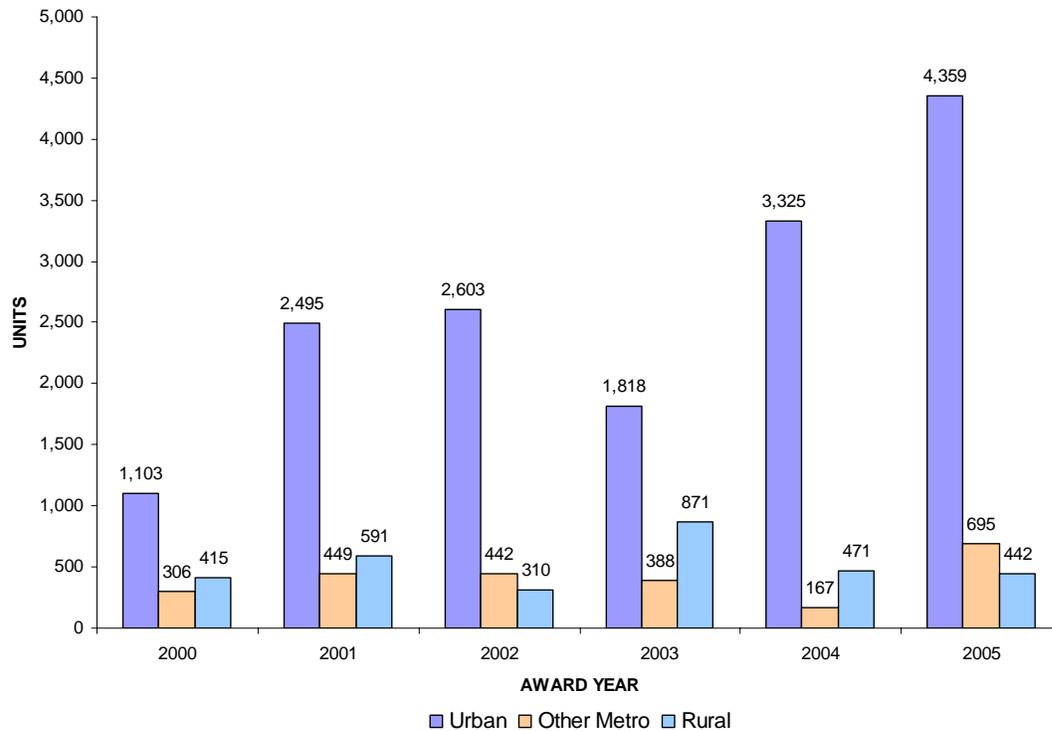
Number of Units Awarded Missouri Low-Income Housing Tax Credits

FIGURE 2: NUMBER OF UNITS AWARDED LIHTCS BY YEAR

Note: The units awarded per year shown for 2004 and 2005 in Figure 2 include projects that have completed cost certification and that are in the process of being cost certified.

Figure 2 demonstrates the number of units awarded per year differentiating the number of units utilizing 9% credits and 4% credits. Over the six-year period, a total of 21,250 units were awarded credits with more than half of the units financed with tax-exempt bonds coupled with 4% credits. The number of units served by 9% credits has remained relatively constant over the six-year period, ranging from a low of 1,169 units produced in 2000 to a high of 1,342 units produced in both 2001 and 2003. Growth in the number of units produced from year to year over the six-year period is largely due to projects utilizing 4% credits.

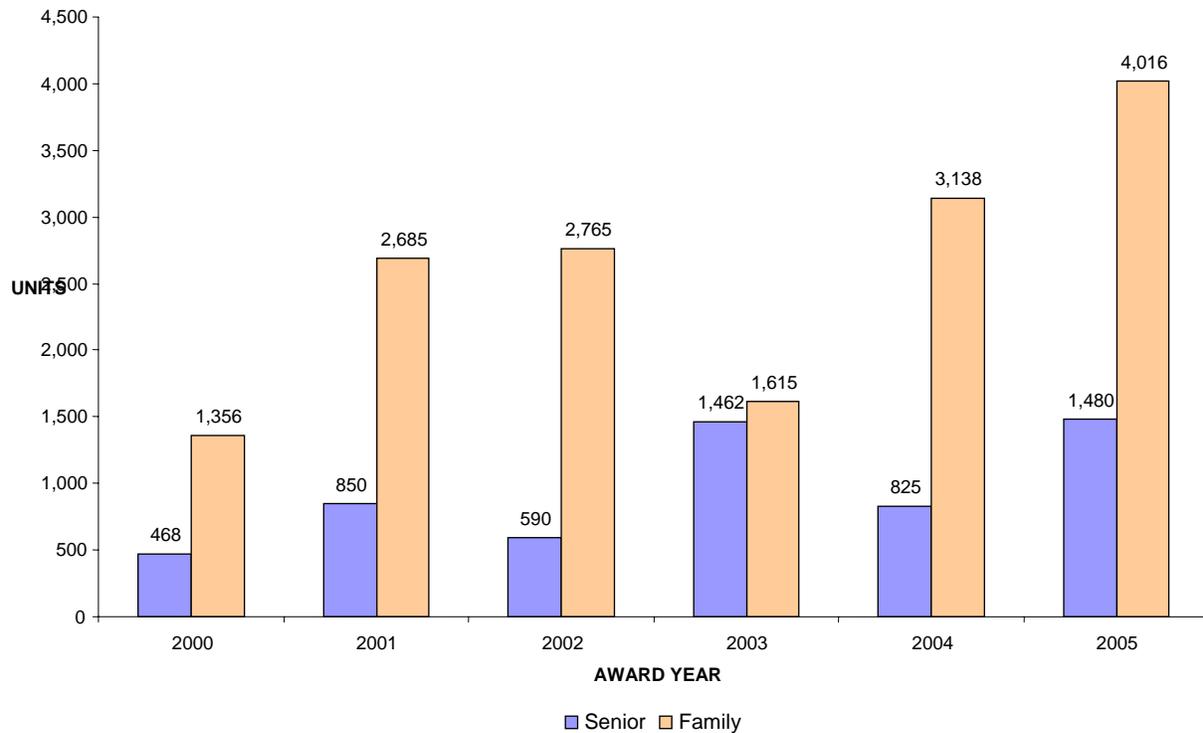
Location of the Units Awarded Missouri Low-Income Housing Tax Credits

FIGURE 3: NUMBER OF UNITS AWARDED LIHTCS BY LOCATION AND YEAR

Note: The units awarded by location and year for 2004 and 2005 shown in Figure 3 include projects that have completed cost certification and projects that are in the process of being cost certified.

Figure 3 demonstrates that the largest number of units awarded LIHTCs are the Urban areas (Kansas City and St. Louis). Of the 21,250 units produced from 2000 through 2005, 15,703 units (73.9%) were produced in the Urban areas, 2,447 units (11.5%) were produced in the Other Metro areas, and 3,100 units (14.6%) were produced in the Rural markets. Out of the 15,703 units produced in the Urban areas, 11,984, or 76% were financed with tax-exempt bonds coupled with 4% tax credits.

Senior and Family Units Awarded Missouri Low-Income Housing Tax Credits

FIGURE 4: NUMBER OF SENIOR & FAMILY UNITS AWARDED LIHTCS BY YEAR

Note: The senior and family units awarded per year shown for 2004 and 2005 in Figure 4 include projects that have completed cost certification and that are in the process of being cost certified.

Figure 4 shows the number of senior units awarded per year and the number of family units awarded per year over the six-year period. Of the total of 21,250 units awarded, 5,675 were senior units and 15,575 were family units. Over the six-year period approximately 26.7% of the units produced were senior while 73.3% were family.

Sample Projects

This report's analysis is based upon a sample of 30 projects allocated credits during the six-year period from calendar year 2000 through calendar year 2005. A representative sample was selected that considered components such as physical location of the project (Urban, Other Metro and Rural), family vs. senior housing, 9% credits vs. 4% credits, number of projects developed per year and other factors. Projects selected in the study included: new construction, acquisition/rehabilitation, multi-family, single-family, historic rehabilitation combined with LIHTCs, projects with HUD Section 8 rental assistance, and projects located in qualified census tracts. Certain projects were judgmentally selected and added to obtain a sample believed to be representative of the projects developed over the six-year period. The sample includes 16 projects located in Missouri's major MSAs (Kansas City and St. Louis), six projects located in Missouri's minor MSAs (Columbia, Joplin, Jefferson City, Springfield and St. Joseph) and eight projects located in regions outside of Missouri's MSAs. Unless specifically referred to otherwise in this report, projects located in Kansas City and St. Louis are referred to collectively as "Urban" projects, projects located in the minor MSAs are referred to collectively as "Other Metro" projects, and projects

located outside MSAs are referred to collectively as “Rural” projects. Figure 5 below sets out the location of the projects used for the analysis. Table 1 follows and provides a listing of the 30 projects.

FIGURE 5: LOCATION OF LIHTC PROPERTIES USED IN THE ANALYSIS

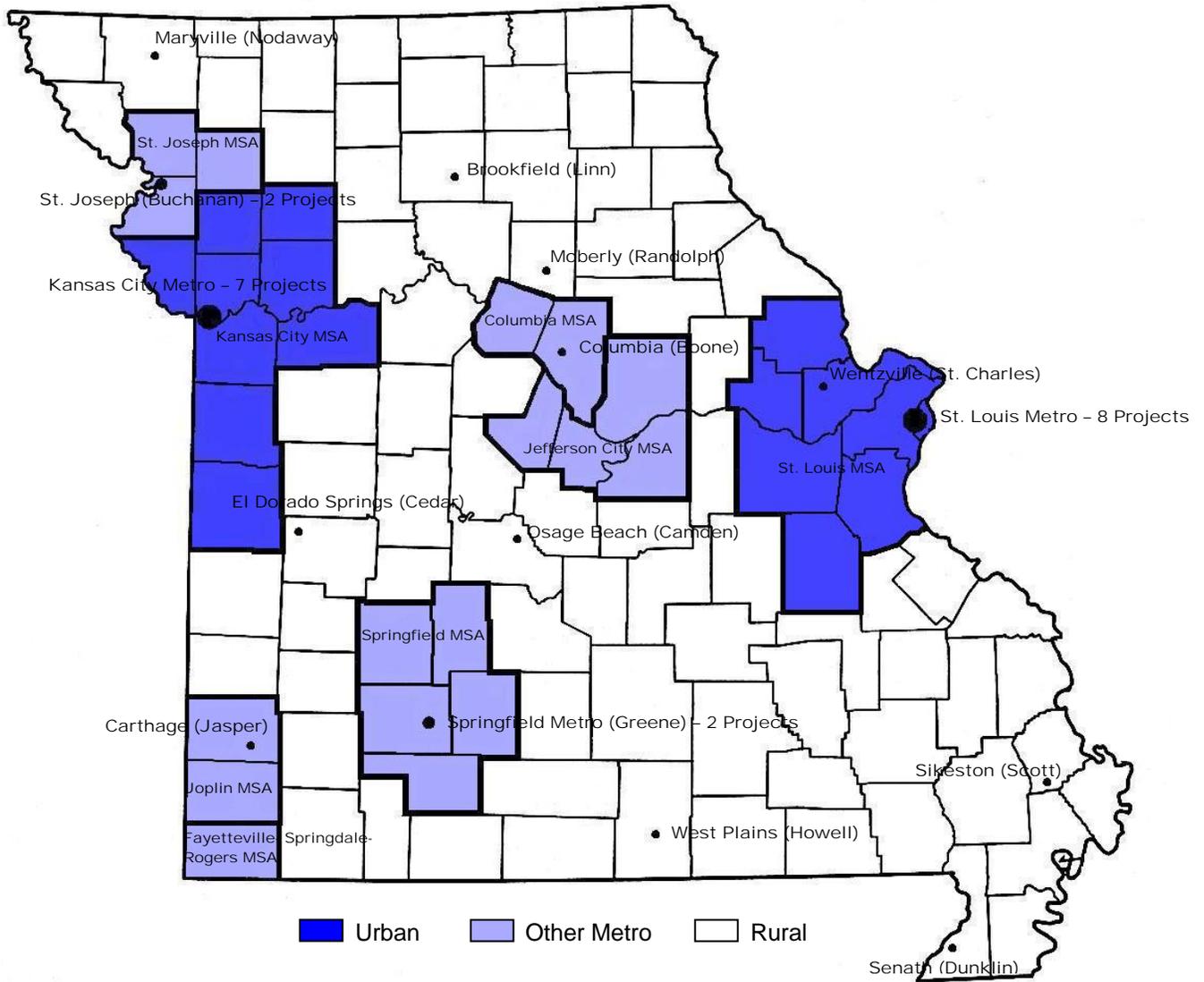


Table 1: Listing of the 30 LIHTC Projects Selected

Project Area	LIHTC Project	City	LIHTC Units	Total Units
Kansas City MSA	Maple Avenue Apartments	Independence	58	64
	Regency Manor II	Independence	50	50
	Chase Apartments	Kansas City	35	35
	Historic Ellison Apartments	Kansas City	51	68
	Old Town Lofts	Kansas City	44	44
	Paige Pointe	Kansas City	74	74
	Residences at West Paseo	Kansas City	46	46
St. Louis MSA	Charbonier Manor Apartments	Florissant	71	71
	Stonebridge Townhomes	Florissant	80	100
	6 North	St. Louis	35	80
	Bentwood Townhomes I	St. Louis	65	82
	McCormack House at Forest	St. Louis	59	89
	Riverbend Apartments	St. Louis	98	98
	Vaughn Elderly	St. Louis	111	111
	Parkview Place	University City	156	156
	Hickory Hollow	Wentzville	37	37
	Other Metro	Chapel Estates	Carthage	24
Lakewood Apartments		Columbia	99	100
Cedarwood Terrace Apartments		Springfield	48	48
Century Tower Apartments		St. Joseph	36	36
St. Joseph Housing		St. Joseph	98	98
Fox Creek Subdivision		Willard	24	24
Rural	Brookfield Village	Brookfield	56	56
	El Dorado Springs Senior	El Dorado Springs	24	24
	Autumn House	Maryville	50	50
	Moberly Apartments II	Moberly	24	24
	The Summit at Osage	Osage Beach	48	48
	Senath Apartments	Senath	48	48
	Wendell Apartments	Sikeston	75	75
	West Plains Apartments	West Plains	32	32
Total			1,756	1,892
Average			59	63

Demand for the Credit

The strong demand for the Missouri 9% LIHTC is demonstrated by comparing the dollar amount of LIHTCs applied for to the dollar amount of 9% LIHTCs awarded during the six-year period from 2000 to 2005. As shown in Figure 6, the 9% credits applied for exceeded the 9% credits actually awarded by a ratio of approximately 3 to 1 from 2000 to 2005. In other words, for every \$3 of credits applied for only \$1 of credit was available.

Evidence of the strong demand for the credit was also obtained during interviews conducted with 16 developers during the study. Virtually every developer interviewed indicated that the state credit was extremely critical to the success of affordable housing in the state of Missouri and that an established market is currently in place for investors to provide equity to the program. The developers further indicated that if additional credits were available they would be able to raise additional equity for the program.

FIGURE 6: 9% LIHTCS APPLIED FOR AND APPROVED BY YEAR

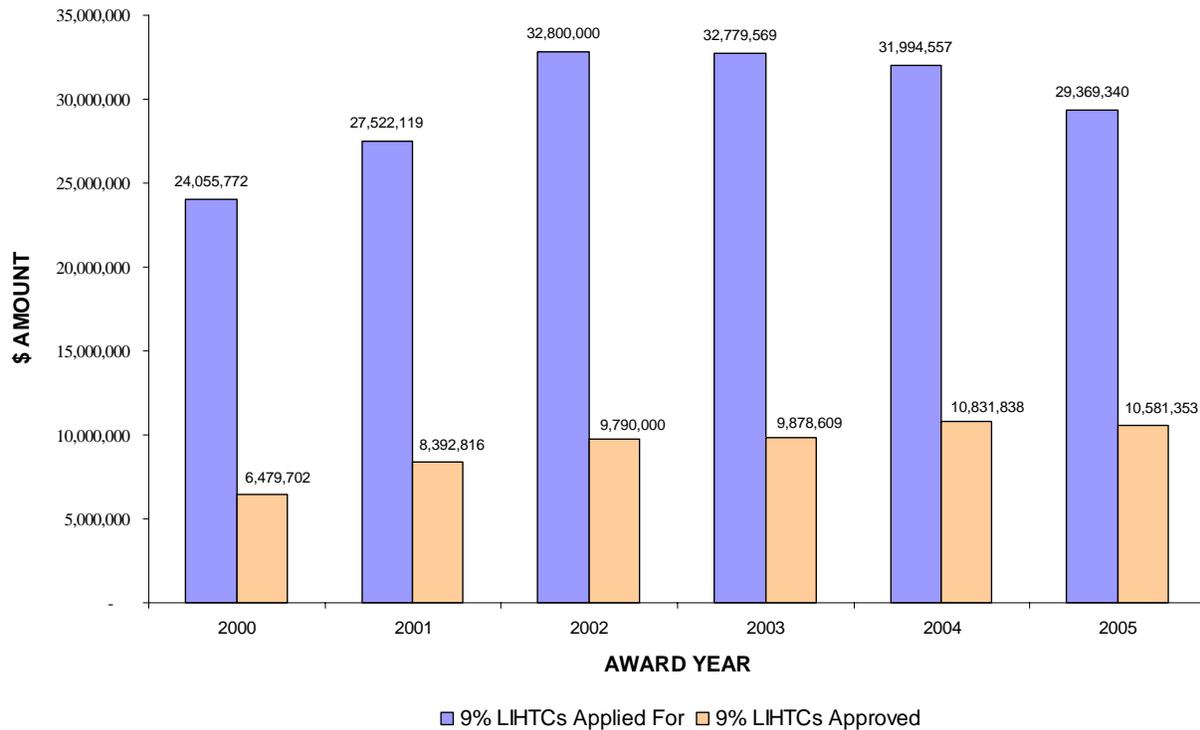
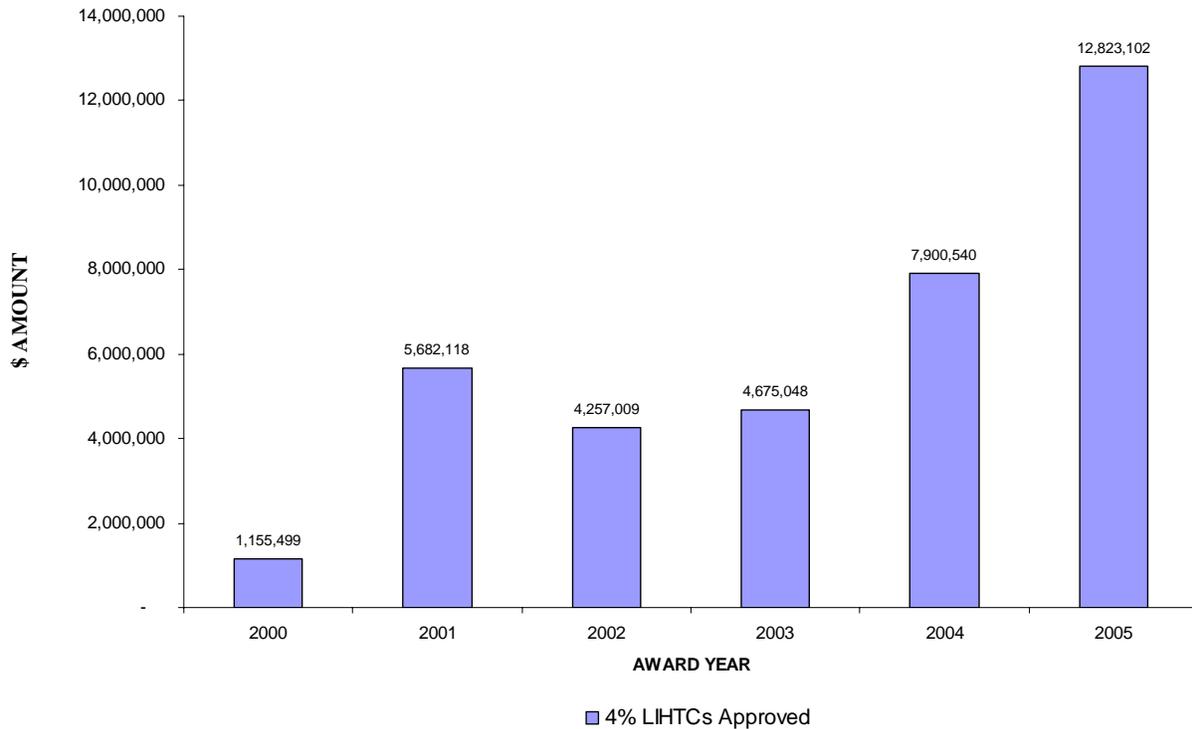


FIGURE 7: 4% LIHTCS APPROVED BY YEAR

Common Investors in Missouri Credits and Reasons for Investing

The Missouri LIHTC (MO LIHTC) may generally be used as a credit against Missouri's (1) income taxes imposed on individuals and corporations, (2) annual corporation franchise tax, (3) annual tax on gross premium receipts imposed on insurance companies, and (4) certain taxes imposed on banks and other financial institutions. Based upon interviews conducted with developers, investors in the MO LIHTC included large corporations, insurance companies, financial institutions and high-income individuals.

Based upon our discussions with developers and investors, Missouri taxpayers invest in MO LIHTCs in order to manage their tax liability and to earn a reasonable return on their investment. Banks and other financial institutions also invest in MO LIHTCs to fulfill requirements under the Community Reinvestment Act.

Over the past 10 years, many Missouri taxpayers have utilized the MO LIHTC as a method of managing their overall income tax liability and a mature market for the credit has developed. Virtually all of the developers interviewed indicated that if they were allocated more credits they could raise additional equity for the construction of affordable housing.

The method of investment includes direct investment and investment through a tax credit fund. Direct investment typically occurs when the MO LIHTC investor, the taxpayer claiming the credit on its tax return, acquires a partnership interest in a partnership that owns a property qualifying for MO LIHTCs. In exchange for a capital contribution to the partnership, the MO LIHTC investor receives an allocation of the MO LIHTC generated by the property.

Investment through a tax credit fund occurs when the MO LIHTC investor acquires a partnership interest in a pass-through entity (typically a partnership or LLC taxed as a partnership) that has in turn acquired a partnership interest in one or more partnerships owning property qualifying for the MO LIHTC. In exchange for a capital contribution to the partnership or partnerships owning and operating MO LIHTC properties, the fund receives a pass-through share of the MO LIHTCs. The fund then passes through the MO LIHTC to the MO LIHTC investor who then claims the credit on its tax return. The tax credit fund is often used to facilitate efficiency in providing the credits to investors. There are number of variations to this method of investment but most investment methods are based upon this basic model.

Many of the developers interviewed indicated they raised equity through funds with the assistance of a tax credit syndicator. A syndicator may assist the developer in raising equity from the generation of MO LIHTCs and assist the investor with acquiring an interest in a partnership that allows the credits to pass through to them under state law. Tax credit syndicators help provide a predictable market which developers can rely upon to provide equity to their developments. The syndicator may also aid the investment process by bundling credits in sufficient quantity to meet specific investor demands.

Several developers emphasized the important role the syndicator plays in the tax credit market by matching the supply and demand for tax credits. By utilizing the services of a syndicator, the developer's time and energy can be focused on developing quality housing as opposed to dealing with the complexities of negotiating with investors.

The developer and syndicator often guarantee the credits reducing the investment risk to the investor. As a result, the syndicator provides another layer of oversight and due diligence to make sure the project complies with federal and state guidelines and requirements. The syndicator is dedicated to the project not only because of the financial risks associated with the guarantee, but also because their name and reputation are aligned with the developer and the project.

Most syndicators are well versed in the tax credit program and bring additional expertise and knowledge. The syndicator assists with structuring the transaction, communicating with professionals and responding to technical issues. This increases efficiency in the tax credit market because transactions close faster and credits are transferred to the investor in a timely manner.

Value of Missouri LIHTCs

The value the state tax credit brings to a low-income housing tax credit project is measurable in several different areas. The first one is viability without the credit. As discussed below, if the state tax credit equity was removed from the project and replaced with additional debt necessary to cover the required sources of funds, rents would rise above the affordable level. State tax credit equity enables rents to remain affordable to low-income residents and enables projects to be financially feasible. Additionally, the quality of construction is enhanced by the state tax credit equity. Many low-income housing projects are indistinguishable from market rate housing. Finally, the state tax credit equity allows rural projects with HOME financing to be economically feasible. These projects are for communities where the median income is extremely low and the affordable housing rents are lowered accordingly.

Feasibility of Development (“But For” Benefits) and Affordability of Rent

The feasibility of the 30 projects selected was tested by substituting debt in place of the state LIHTC equity that was made available to the projects to determine the impact on rents and the increase in rents necessary to make the developments operate at break-even cash flow or better. The information used in this analysis was obtained from the FIN-100 forms submitted with the application (net income or loss excluding depreciation and principal payments). Assuming the state LIHTC equity was replaced with

amortizing market rate debt, it is estimated that rents would need to be increased, on average between 18.7% and 24.3%, for the developments to break-even. When broken down by region, on average rents would need to increase between 20.3% and 26.1% in the Urban areas, between 23.3% and 28.1% in the Other Metro areas, and between 11.9% and 17.9% in the Rural areas.

Obtaining such rent increases would be problematic due to federal restrictions on affordable rents and market conditions rendering most projects unfeasible to develop. Without the state LIHTC equity or other substitute funding, it is likely that a substantial number of units simply would not be developed having a negative impact on the availability of quality affordable housing in the state. Even if the state LIHTC equity were replaced with 1% debt (below market interest rate debt) amortized over the term of the existing permanent loan and not subject to bank and commercial lending criteria, rent increases of between 5.3% and 10.9% would need to occur, on average, for the projects to have break-even cash flow.

The consensus of the developers interviewed during the study, is that without the state LIHTC fewer projects and units would be developed and those that were developed would be extremely difficult to operate at break-even. The state LIHTC brings affordable rents below market levels and provides quality project location, quality construction and necessary amenities. According to the developers interviewed, without the tax credit, it may be possible to construct a project but the rents charged would need to increase to approximately market rates and the amenities would suffer. Since rents in rural areas are already close to market prices, fewer developments would occur in rural Missouri where workforce housing is needed. The projects that would be developed would occur primarily in the larger metropolitan areas leaving a gap in the availability of affordable workforce housing in rural Missouri.

The developers further indicated the developments that were constructed would be of lower quality construction and the location of those projects that could be developed would be in areas where land costs were cheaper often meaning that the development would be located further away from jobs, hospitals, schools and vital community services that provide for quality housing.

One area not specifically addressed in this study, but worth further investigation, is the requirement in Section 42 of the Internal Revenue Code that mandates only families earning at or below 60% of the median family income for the county qualify to live in a LIHTC unit. In rural Missouri, this is often problematic because the counties have such low median incomes that families are often over income and ineligible to live in an LIHTC unit.

Based on information provided by MHDC, a family of four with two persons working full-time earning \$7.85 an hour will earn \$30,144 a year. This family would be over income in 77 of the 114 counties in Missouri (based on income figures provided by MHDC and prepared from HUD limits dated March 8, 2006).

While further study would be necessary, one possible solution would be to seek federal legislation that would allow use of the statewide median income in very low-income counties. This would allow a greater number of low-income families to qualify for LIHTC housing.

Amenities

The developers interviewed indicated that the MO LIHTC equity permits many amenities to be included in LIHTC developments, which otherwise would not be available due to cost. The tax credit also allows for the amenities that are provided to be of higher quality. Construction amenities included all brick exteriors, high quality insulation, energy efficient windows and appliances and other energy saving construction. These construction features allow for lower energy consumption which translates into lower monthly energy bills and more cost efficient housing for residents. Not only are monthly rental rates

made more affordable but the overall cost of housing is more affordable when quality construction is in place.

Amenities incorporated into certain projects for seniors included community rooms, community kitchens, laundry room, washer/dryer hookups, organized activities, availability of community based social services, outside courtyards and open spaces, transportation services, assistance with bill paying, nutrition counseling and food pantry. These amenities provide seniors with contact with the community and enhance quality of life. Not all amenities are available in all projects due to feasibility constraints and project configuration, but the developers generally expressed the importance of amenities for seniors and other families. Several developers interviewed specifically referred to quality of life issues for their senior tenants and how they specifically design senior projects to address specific quality of life issues. Although not generally thought of in terms of amenities, the developers indicated that quality housing for seniors depends on location of the housing and its proximity to medical, community and social services. They indicated that it would be very difficult to locate housing close to such services without the state tax credit as the land cost in these areas is generally, significantly higher than in areas that are further away from critical services.

Family housing amenities included community centers, computer rooms, playgrounds, sport facilities and other recreational features for children and community gatherings. These areas are provided to encourage education, recreation, community involvement and interaction. The housing is developed so the families, and especially children, have a place to come home to that is safe. The homes or apartments often include a full kitchen with refrigerator, stove, dishwasher, microwave, garbage disposal and washer/dryer hookups.

Many of the developers teamed up with not-for-profit groups to provide programs for the residents. Examples of programs included in some projects were after school and learning programs for the children, tutoring, boy scouts/girls scouts, food pantry, referral services to local agencies, day care, head start programs, General Educational Development (GED) classes, computer classes, craft fairs, meals on wheels, blood pressure screening, dress for success and case management. One housing development even included YMCA services on the premises. The developers try to incorporate programs that will improve residents' lives. Many of the developers feel that helping the residents advance socially and financially strengthens the viability of the properties and meets the goal of providing quality housing.

Based on feedback provided by developers who built low-income projects in multiple states, there is a significant difference between what is done with amenities in Missouri versus other states due to the additional equity provided.

The developers interviewed stated that, without the availability of the state tax credits, amenities that are often provided, and that most Missourians would expect to be available in housing within the state, would be the first items cut. Some developers went on to say that if they couldn't build the property with their standard amenities, they would simply not build the project and look for options in other states. Without the state tax credits, there simply would not be enough sources of funds to develop projects with high quality amenities that promote safety, comfort and opportunities for learning or betterment.

Quality of Construction

Developers stated that because of the state credit, quality of construction is high in Missouri and that developers are able to build housing that is expected to last for many years and at lower maintenance costs. Developers who have developed properties in Missouri and other states without the state credit and developers who have looked at building projects in states without a state tax credit indicated that the quality of construction is higher in Missouri and that this increased quality is directly dependent on the

availability of the state tax credit. Developers further stated that, due to the state tax credit, the quality of construction of properties financed by state tax credits is similar to that of market rate housing and that the affordable housing is often indistinguishable from market rate housing developed in the area. The state tax credit allows developers to build high quality, low maintenance housing that is available to low-income tenants.

State Tax Credit Enhancement of HOME Financing

The state tax credit enhances the feasibility of HOME financing for rural developments where median incomes are extremely low. Developers seek to obtain an allocation of HOME funds as these funds are made available at very low (below market) or zero percent interest rates with favorable terms. HOME financing reduces monthly debt service below that which can be obtained from commercial or bank lenders thus reducing the project's monthly cash outlays. Projects receiving HOME funds are subject to a number of restrictions including restrictions on the monthly rents based on HUD Fair Market Rents (FMRs) for the county in which the project is developed. In Missouri's 77 rural counties where median incomes are extremely low, these rents are often well below market rate rents and fall well short of the revenue needed to cover the monthly debt service and operating expenses of the projects. Therefore, many of the developments are not feasible even with the availability of HOME funds and the federal LIHTC. It is important to recognize that there are fixed cost components to developing, constructing and operating housing in rural markets. Even though median incomes are lower in rural counties, it does not mean that costs are proportionately lower as well.

This is where the state LIHTC comes into play. Utilization of HOME funds, federal LIHTCs and bank financing along with other less substantial subsidies that may be available in rural areas typically leaves a gap in the amount of financing that is necessary to make rural projects feasible given the low median incomes and related rents. The state LIHTC provides the equity necessary to close the gap and make rural housing development feasible. Without the availability of the LIHTC many rural projects would not be developed and those that were developed would likely be of diminished construction quality and lacking in the desired amenities.

The developers interviewed were specifically asked about the state tax credits enhancement of HOME financing. The developers that utilized HOME financing in rural markets indicated that without the state LIHTC the developments simply would not be feasible due to the low incomes, cost of development and restricted rents. Without HOME and MO LIHTC utilized together, many of the projects simply would not work financially and thus could not be built. These added funds help keep rents below the market rates by keeping down debt service coverage.

Additional Incentives Available in Missouri

During the interview process with developers, it became apparent that while the federal and state LIHTC equity covers a significant portion of development costs, many times credits alone are not enough to make a project feasible. In these instances, developers turn to other incentive programs offered by federal, state and local agencies to fill the equity gap they are faced with. Outlined below are different types of alternate incentives.

Below Market Interest Rate Loans

Two popular programs utilized by developers in the State of Missouri to finance the gap are the HOME Rental Housing Program and MHDC Fund Balance monies. Both of these programs have requirements for financing that include activities that increase affordable housing in the state. The HOME Rental Housing Program is administered by the Federal Department of Housing and Urban Development (HUD)

program and requires that rents be based on a person's income being 50% or 60% of the area median income. Funding for this program is determined by Congress. The MHDC Fund Balance monies are offered as a low interest loan (currently 3%) and the income limit is 150% of area median income.

Grants

HUD's HOPE VI program offers grants to help eradicate severely distressed public housing. The focus of this program is in three areas 1) physical improvements, 2) management improvements, and 3) social and community services to address resident needs.

Another grant program which assists in providing affordable housing is the grant program administered by the Missouri Housing Trust Fund. The fund, described above, administers grants to organizations which provide housing assistance to individuals.

The Community Development Block Grant Program (CDBG) is a program administered by HUD which offers communities resources to address a wide variety of community development needs, including affordable housing. This program works to ensure decent affordable housing, to provide services to the most vulnerable in our communities, and to create jobs through the expansion and retention of businesses.

Rental Assistance

HUD offers rental assistance to low-income families through its Section 8 Assistance for Public Housing Relocation/Replacement program. This program offers certificates or vouchers to tenants that were in public housing and are forced to move due to rehabilitation or demolition of their public housing unit.

Another component of HUD Section 8 housing is the project based assistance program. Under this program, HUD enters into contracts with private developers to make these properties available to qualified low-income tenants. The tenants pay 30% of their incomes for the housing and HUD reimburses the developer for the difference. Tenants in Section 8 project based properties must fall within certain income thresholds. At the end of the project's Section 8 contract, the developer must decide whether or not to renew the contract.

A similar program is offered by the United States Department of Agriculture (USDA) for rental assistance in rural areas. The USDA enters into a contract with a project owner which outlines the property designated for low-income tenants. The tenants are responsible for paying rental payments equal to 30% of their income and then the USDA makes payments to the property owner for the difference.

Other Credit Programs

Both the federal and state governments offer additional types of tax credits that can be used in conjunction with LIHTCs. Two popular programs that are utilized with projects across the State of Missouri are the Historic Rehabilitation Tax Credits and the Affordable Housing Assistance Program (AHAP) credits.

The Historic Rehabilitation Tax Credits are offered by both the federal and State of Missouri governments. The federal government offers a 20% credit for qualified expenditures and the state offers a 25% credit. These credits can be utilized by LIHTC project developers to provide additional equity thus reducing the level of debt needed for the project.

AHAP credits are issued by the State of Missouri to businesses and/or individuals to encourage participation in affordable housing projects. The credits, which are used to offset income tax, are equal to 55% of cash, professional services, and real or personal property that is contributed to non-profit

community based organizations. The non-profit community organization must use the donations to assist with the production of affordable housing or, in some cases, provide assistance for administrative costs of the organization. Typically, the non-profit community organization provides this assistance via a loan, capital contribution, or a grant to assist with construction activities or acquisition.

Tax Abatement

Section 353 tax abatement allows for assessments for property tax purposes to be calculated on the land value before improvements. This would allow the improvements to be exempt from property taxes for a period of time. Properties eligible for this program are properties in “blighted” areas. This program is administered by the Missouri Department of Economic Development and is subject to various restrictions and reporting requirements.

All of the above programs help provide affordable housing to residents of Missouri but are often not enough on their own to meet the demand for affordable housing. Without the Missouri LIHTC, developers would be forced to rely on numerous other government programs to provide needed sources. Each of these programs has its own set of requirements and restrictions, and the more they are layered the more cumbersome they become making developments a challenge to develop and manage on a day to day basis.

Comparison of the Missouri LIHTC Program with another Missouri Tax Credit Program

In this part of the analysis, the Missouri state LIHTC is compared with another Missouri tax credit program, Missouri's Affordable Housing Assistance Program (AHAP). The AHAP provides credits to individuals or businesses that donate cash, equity, services and real or personal property to a non-profit community based organization. The credit is equal to 55% of the donation and is transferable. The non-profit community based organization uses the donations for direct investment, grants, or loans to affordable housing projects. Important characteristics of the AHAP and LIHTC programs are presented in Figure 8.

FIGURE 8: MISSOURI CREDIT PROGRAM COMPARISON		
	LIHTC	AHAP
Carryback	3 Years	None
Carryforward	5 Years	10 Years
Transferable	No	Yes
Certificated	No	Yes
Credit Offset Certain Taxes	Same	Same
Credit	100% of Federal LIHTC (Based on Need)	55% of Contribution
Investment/Cost Requirement	Investment in a low-income housing project	Money, property, or services to NFP providing affordable housing in the form of a donation
Fee	Application Fee, Reservation Fee, Allocation Fee, Compliance Monitoring Fee and Recording Charge	Fee of 0.5% of donation
Recapture	10 years	None

Survey of Other State LIHTC Programs

Figure 9 compares the state credit program in Missouri with three other states: Georgia, Massachusetts and North Carolina. While there are several nuances to the individual state programs, the programs also share many similarities.

FIGURE 9: COMPARISON OF STATE CREDIT PROGRAMS				
	MISSOURI	GEORGIA	MASSACHUSETTS	NORTH CAROLINA
What Agency runs the Federal and State housing credit programs?	Missouri Housing Development Commission	Georgia Department of Community Affairs & Georgia Housing & Finance Authority	Massachusetts Department of Housing & Community Development	North Carolina Housing Finance Agency
Amount of Credit	Dollar for Dollar based on Federal Credit	Dollar for Dollar based on Federal Credit	Discretionary up to 50% of Federal Credit Award	Maximum of \$1,000,000 - Principal \$ 800,000 - Project or \$ 8,000 per LIH Unit
State Credit Overall Cap	Same as Federal	Same as Federal	Lesser of \$4,000,000 or 50% of Federal Credit	N/A
Maximum Number of Applications	N/A	Maximum of 6 applications per applicant	N/A	N/A
Threshold Review Before Scoring/Competitive	YES	YES	YES	YES
Scoring System	NO	YES	YES	YES
Set Aside	YES	YES	YES	YES
Recapture Period	10 Years	15 Years	15 Years	5 Years
Carry Forward	5 Years	3 Years	5 Years	None
Carry Back	3 Years	None	None	None
Credit Period	10 Years	10 Years	5 Years	N/A
Transferable	Allocated to partners	Allocated to partners	YES	Transferred to NCHFA or directly refunded to the Partnership

Georgia

The Georgia low-income housing tax program is similar to the Missouri program. The Georgia Department of Community Affairs (GDCA) in conjunction with the Georgia Housing Finance Authority (GHFA) administers both the federal and state low-income housing programs. The total state credits awarded in a year are the same as the federal credits allocated to the state.

Credits are allocated in Georgia to projects that receive a federal allocation. The state credit is available to 9% and 4% deals. Currently, the state allocates one Georgia state credit for each federal credit awarded to a project.

The Georgia credit is a nonrefundable credit taken over ten years. The credit is allowed over the same ten-year credit period as the federal credit. The credit is allocated to the partners in any agreed-upon method and may be allocated to one or all partners.

Any unused state credits may be carried forward for up to three years. The credit cannot be carried back to prior years and is not transferable. The credit is subject to recapture over the 15-year compliance period, if federal recapture occurs.

Georgia's QAP details the threshold requirements and competitive scoring system used to allocate tax credits. GDCA may use its discretion to award credits to lower ranking projects to achieve a better mix of projects in certain areas and meet the state's housing needs. The state conforms to the 10% not-for-profit set aside. The 2007 QAP also lists a set-aside for rural projects.

Massachusetts

Massachusetts has a state LIHTC that operates in conjunction with the federal credit. The Massachusetts Department of Housing and Community Development (MDHCD) is the agency responsible for administering both the federal and state programs within the state. The total state credits awarded in a year are capped at the lesser of \$4,000,000 or 50% of the federal credits allocated to the state. In addition, MDHCD may allocate any unused credits from prior years or any credits returned to the state by qualified projects.

Credits are allocated in Massachusetts to eligible projects in conjunction with the federal low-income housing credits or to projects that received an allocation of federal low-income housing credits in prior years. The state credit is available to 9% and 4% deals. The state credits are allocated to projects based on need up to 50% of the federal credit award for the project.

The Massachusetts state credit is a nonrefundable credit taken over five years. The credit is pro-rated for the initial year based on the placed in service date with the balance taken in the sixth year, but there is an early credit option that allows the project owner to take the full amount of the credit in the first year of eligibility.

Any unused state credits may be carried forward for up to five years. The credit cannot be carried back to prior years. The credit is transferable and subject to recapture. The credit is subject to recapture over the 15-year compliance period, if federal recapture occurs.

According to the QAP, Massachusetts uses a threshold criteria and a competitive scoring system to allocate tax credits. The 2007 QAP lines out 11 threshold criteria and the applicant must present a narrative addressing the project's ability to meet the threshold criteria. The competitive scoring system is described in the QAP, with points and criteria set out for each section. The state conforms to the 10%

not-for-profit set aside. The state also provides additional set aside criteria in the QAP based on the housing needs and goals of the state as identified by MDHCD.

North Carolina

In North Carolina, the North Carolina Housing Finance Agency (NCHFA) administers the federal and state credit programs. North Carolina provides state credits for low-income housing development within the state, but the state credit operates in a unique way in comparison to Missouri's state credit as noted below.

Credits are allocated in North Carolina to eligible projects in conjunction with the federal low-income housing credits based on need. The state credit is available to 9% and 4% deals. The maximum total credit awarded to any one Principal is \$1,000,000. Each project can receive a maximum of \$800,000 or \$8,000 per unit in tax credits.

North Carolina's state credit is provided to projects within one year of the award and takes two forms. With the final application, applicants must identify whether they chose the direct refund option or the loan option. Under the direct refund method, the project partnership receives the amount of the credit as a refund and must transfer the credits to NCHFA. With the loan method, the project exchanges the amount of the credit for a 0% loan with a balloon payment of the principal after 30 years.

As the credit is exchanged for a loan or refunded to the project partnership, there is no credit carry back or carry forward feature. The credit is subject to recapture for five years with the direct loan method. The direct refund is issued to the project partnership and not to the owners or investors. If the loan option is elected, the loan terms must be met throughout the term loan term.

According to the QAP, North Carolina uses a combination of threshold criteria and a competitive scoring system to award credits to applicants. The competitive scoring system and corresponding threshold requirements are described in the QAP, with points and criteria set out for each section. The state conforms to the 10% not-for-profit set aside. The state also provides additional set aside criteria in the QAP specifically for preservation, rehabilitation and new construction. New construction set asides are further broken down by geographic areas.

Cost/Benefit Analysis of Missouri LIHTC

Economic and Social Parameters Used

Both economic and social factors were studied in the analysis of the Missouri LIHTC program. Economic costs and benefits that were considered included: impacts on the economy, employment and the tax system. Impacts on the economy comprise the output and value produced as a result of constructing and operating the project. The impacts on employment obtained through the production of jobs including those that result directly from the construction and operation of the project and those that support those functions. The tax implications result from additional taxes and fees that are collected due to the housing developments being provided. An analysis of the economic impacts will be examined in the first section that follows. An analysis of the social impacts follows the economic impact discussion. The social costs of not providing the Missouri LIHTC that were studied include costs to education, public health, social services, law enforcement, the criminal justice system and welfare system.

Economic Analysis

(Provided by Dr. David Mitchell, Director – Bureau of Economic Research, Missouri State University)

The Missouri LIHTC program has a sizeable impact on the state economy. The construction and operation of housing projects that were developed between 2000 and 2005 will increase the gross state product of the economy by over 3.73 billion dollars, generate economic activity of over 6.5 billion dollars, and will create over 41,800 full-time jobs. For every \$1 of state tax credit awarded, the state will see, on average and based in present value terms, an increase in gross state product of \$5.45 with that same \$1 generating \$9.60 in economic activity.

The purpose of this economic analysis is to identify and quantify the size and nature of economic impacts in terms of economic stimulus to the state's economy, jobs creation and impact of state tax revenue. The state LIHTC is awarded to private developers, in a manner similar to the federal LIHTC, for the purpose of providing developers a financing source for the development and construction of housing targeted for residents who generally earn less than 60% of the median income in the area in which they live and who cannot afford to pay market rate rents. The state LIHTC represents a dollar-for-dollar reduction of the developer's state income tax liability over 10 years. This tax savings may be used by the developer to provide equity to the project that would otherwise be financed with debt. By reducing debt, equity from the tax credits allows the developer to lower the monthly debt service requirements of the project thus reducing monthly rents to a level affordable to low-income families and seniors.

The developer typically does not have a tax liability sufficient to allow the developer to fully utilize either the federal or state LIHTC. Instead, the developer obtains equity by syndicating the credit to outside investors seeking to reduce or manage their tax liability. The syndication process is critical to both the federal and state LIHTC programs as it provides the catalyst for bringing in new sources of private equity for the production of housing. To the extent that outside investors provide new equity dollars that would not otherwise be available for housing, the construction and operation of housing made possible with these new equity dollars produces impacts on the economy that would not otherwise have occurred without the credit.

Input-Output Modeling and the Research Methodology

The economic analysis set out below is based upon a selected sample of 30 representative projects previously described. See Figure 5 (page 8) and Table 1 (page 9) for the location and listing of projects that make up the sample. The results of the economic analysis obtained from the sample were extrapolated to the entire population of LIHTC units statewide to determine the statewide economic impact. From 2000 through 2005, there were 327 projects allocated state credits resulting in production of 21,250 state LIHTC eligible units. This number includes projects that were actually cost certified at the time of the analysis and projects that were not yet cost certified but are anticipated to be cost certified and fully state LIHTC eligible. On average, each project consisted of approximately 64 LIHTC eligible housing units. The following Table 2 provides a summary of LIHTC housing units by year and location.

Table 2: LIHTC Housing Units by Year and Location

Award Year	Kansas City	St. Louis	Other Metro	Rural	Total Units
2000	609	494	306	415	1,824
2001	1,494	1,001	449	591	3,535
2002	1,293	1,310	442	310	3,355
2003	649	1,169	388	871	3,077
2004	1,548	1,777	167	471	3,963
2005	1,611	2,748	695	442	5,496
Total Units	7,204	8,499	2,447	3,100	21,250

Data on the costs of construction and operation for all 30 sample projects were acquired from Tax Credit Cost Certifications (MHDC Form 3340) and audited financial statements provided by MHDC. This data was analyzed using IMPLAN to determine the economic effect that each individual project has generated. IMPLAN is a software package that is used in Input-Output (I-O) analysis to determine the size and nature of economic impacts using a classification system of 509 different sub-sectors of the economy.

Input-Output analysis assumes that in order for the economy of a region, such as a state or county, to generate output, it requires inputs. The pathway of these forward and backward linkages is tracked and recorded. For example, suppose that a new golf course is to be built in Kansas City, Missouri. There would be three different types of effects from this activity – direct, indirect and induced. The actual construction and operation of the golf course would generate direct effects which would be associated with the direct purchase of inputs used in the production of golf games. The economic impact does not stop with the direct impact as it has a ripple effect on other industries and households in the form of induced and indirect effects. For purposes of classification, the indirect effects are the increased use of inputs that are produced by other firms that are needed to meet the increased initial demands. The induced effects are created from the additional income generated and spent by households and business from the direct and indirect effects. Returning to the golf course example, the indirect effects could be in the form of increased commerce for local landscaping businesses which would plant and maintain the golf course. This generates additional income for the employees of the golf course and the landscaping company who then purchase movie tickets, haircuts, restaurant meals and other assorted goods and services which further generates additional income and consumption spending by these companies and their employees. This final effect is the induced effect.

Input-Output analysis assumes that the region under study is able to meet all of the associated backward and forward linkages that are placed upon it without any difficulty. Therefore, if there is full employment and very little commercial and industrial production slack within the region, input-output analysis may overstate the true economic impact. Under circumstances such as these some of the indirect and induced effects could ‘leak out’ of the region. That is to say that since local firms do not have the capacity to meet the increased initial demands, firms in other regions will do so and the other regions will hence reap some of the economic benefits.

Likewise, if our initial region has too much unemployment and production slack, input-output analysis may also overstate the true economic effect. This is due primarily to unemployment compensation (Davis 1990). Suppose a household is receiving unemployment compensation of \$400 per month before an economic shock. A new business moves into the area and hires members of the local populace at \$900

per month. Therefore, the 'new impact' is only \$500 per month, not the \$900 per month in new wages that the employee receives from the new job.

Alternatively, input-output analysis can underestimate the true economic impact as well. Recall that I-O analysis assumes that the local populace does not change to meet the new demands. However, if the new business attracts more commuters or residents who permanently relocate into the region, the total economic effect will be larger than otherwise predicted. Since the Missouri economy has not faced any problems of greatly 'overheating' or 'under producing' during the time frame of study, it was assumed that no adjustment in the final results for these reasons would be necessary.

To achieve reliable results of the economic impact of the state LIHTC program, it is necessary to adjust the results in two distinct ways. The first is to make a distinction between the short run and the long run impacts. The short run effects are derived from actual construction or rehabilitation of the housing project. These effects are just like they sound—short run. Once the housing project is completed, these effects will stop. The long run effect is from the operations and maintenance of the project. In other words, staff must be hired, snow removed, utilities purchased, laundry services provided, etc. These activities generate economic effects that continue as long as the housing project is in operation.

In addition to the above mentioned economic impacts, there are other costs and benefits that occur in both the short run and the long run. One possible benefit of LIHTC projects includes additional residents from outside the state relocating to the area to take advantage of either the housing or the ancillary jobs that were created. As a consequence, the induced effect of building/operating the housing project would be increased. Also, if residents of the LIHTC projects experience lower crime rates and/or higher education rates as opposed to other modes of living arrangements, then the cost of providing public services decreases (Saegert, Winkel, and Swartz, 2002).

However, it is possible that the housing project could also create additional costs in the form of higher traffic congestion in the area and additional fiscal strains that may be placed on local government entities. If new residents move into the project from outside the study area and are in need of public services, such as education for their children, local governments could see their costs increase. This is especially true if the new residents will 'consume' more public services than they 'pay' for via taxes. Furthermore, Lee, Culhane, and Watcher (1999) discovered that the presence of low-income housing tax credit sites slightly lowered the property values of surrounding homes and business which would translate into a decrease in assessed valuation and tax revenue for any given property tax rate that a local governmental entity sets. Since we had no data on any of the possible values of each of the aforementioned costs and benefits, they were excluded from the analysis; however, it is not believed that any one of them would be particularly strong, either positively or negatively.

As mentioned earlier, hard and soft construction cost data, as well as data on operations, was organized and analyzed in IMPLAN. All relevant data was adjusted for inflation, via IMPLAN, to coincide with 2004 dollars. The IMPLAN model utilizes historic data in determining its input-output computations requiring statement of amounts in historical, or 2004 dollars, which was the most current IMPLAN data available at the time of this study. Economic impacts from construction were ascertained first. Then estimates on the ongoing yearly economic impact from operations were determined and extrapolated out over 20 years. This extrapolation included adjusting the results for inflation at a rate of 2.5%. This adjustment was made since many of the LIHTC contracts require operation of the project with low-income housing rents for between 15 to 30 years even though the credits stop after 10 years. To convert the yearly real net benefits of the LIHTC program to present value dollars, a discount rate of 4.632% was chosen which is a representative U.S. Government ten-year bond rate in April 2007.

Results on the sample of individual projects were extrapolated to the population of LIHTC projects allocated credits from 2000 through 2005. Therefore, the results apply only to these projects. Any projects that were built before 2000 which are still in operation are continuing to impose an impact on the economy; but since we do not have data on these projects, their impact is not reflected in the figures presented here. It is further assumed that the projects receiving LIHTC allocations from 2000 to 2005 created economic impacts that coincide with those years even though it is possible that certain economic impacts could occur in periods outside the allocation years due to the timing of construction, lease-up and other factors. See Appendix A for IMPLAN results of the 30 projects that were used in the extrapolation to the entire population of LIHTC projects.

Table 3 delineates the economic effects of constructing the 327 low-income housing projects throughout the four regions of the state. The impacts are divided between construction and annual operations.

Table 3: Statewide Projections of Economic Impacts of the LIHTC Program from 2000 through 2005

	Kansas City	St. Louis	Other Metro	Rural	Total
Construction					
Output	\$ 1,704,576,674	\$ 1,791,361,382	\$ 328,878,724	\$ 205,040,591	\$ 4,029,857,371
Value Added	\$ 915,105,861	\$ 1,084,946,821	\$ 185,158,986	\$ 102,909,044	\$ 2,288,120,712
Taxes	\$ 92,930,946	\$ 71,655,360	\$ 12,397,701	\$ 6,787,897	\$ 183,771,904
Fees	\$ 5,002,400	\$ 4,300,662	\$ 1,247,566	\$ 1,222,771	\$ 11,773,399
Employment (Jobs)	17,344	19,242	4,440	2,827	43,853
Employment (FTEs)	15,613	17,781	4,234	2,723	40,351
Annual Operations					
Output	\$ 40,999,893	\$ 96,778,618	\$ 11,850,495	\$ 11,473,421	\$ 161,102,427
Value Added	\$ 24,321,025	\$ 54,560,011	\$ 6,467,725	\$ 6,035,856	\$ 91,384,617
Taxes	\$ 1,835,961	\$ 4,406,412	\$ 499,499	\$ 453,034	\$ 7,194,906
Employment (Jobs)	388	955	138	142	1,623
Employment (FTEs)	357	841	128	131	1,457

Economic Impact

The reader should note a few important points when reading this and other tables presented in this section of the report. The first is the distinction between value added and output. Output generated is a reflection of ‘total’ output and includes the value of intermediate inputs while value added estimates include only employee compensation, proprietor income, other property income and indirect business taxes. Value added, not output, is identical to gross state product (GSP), which is the state equivalent of a nation’s gross domestic product (GDP). For example, suppose there is an economic shock that results in one more car being produced. Suppose that Ford must pay \$2,000 for the steel needed to make the car and that once completed, the car will sell for \$10,000. Examining total output will add up both the final value of the car, \$10,000, plus the \$2,000 purchase of the steel for a total economic impact of \$12,000. However, remember, the value of the steel is already reflected in the \$10,000 price of the car. Therefore, looking at total output ‘counts’ the steel in the car twice—once when it is purchased as an input and then again when

it is sold as part of the car. Value added looks only at the increase in value that occurred to the inputs. In other words, Ford Motor Company took \$2,000 worth of steel and transformed it into a car worth \$10,000—in short they added \$8,000 in value.

A second important note is the presence of economies of scale that can make extrapolation to larger projects somewhat problematic if the reader is not careful in their analysis. Economies of scale are decreases in average cost as the amount of a product produced increases. In other words, if we were to examine the costs to produce a typical 100 unit housing project compared to another housing project that was similar in scope except that it was only 50 units of housing, we would find that the 100 unit housing project has higher costs but that these costs are not twice as large as the 50 unit project. For example, the costs to produce the 50 unit project might be \$7 million while the 100 unit housing project might cost \$12.5 million—larger, but not twice as large. These economies of scale exist for a variety of reasons. As an example, consider the bulldozer that is hired to level and compact the land that the housing project will be placed upon. This cost will be almost identical whether the developer is building a 50 unit project or a 100 unit project. Therefore, if the State of Missouri begins to finance low-income housing projects that are significantly larger in size than those represented in the sample, the analysis of how much each of the larger projects will produce in terms of output, value added and jobs needs to be adjusted accordingly.

As shown in Table 3, the total output generated from constructing low-income housing from 2000 through 2005 is projected to be over \$4 billion. Most of the output produced is from the primary MSAs of Kansas City and St. Louis. Actual value added, GSP, from construction grew approximately \$2.3 billion during the six year period. If low-income housing had not been constructed in these years, output and gross state product could have fallen by this amount. We state could have fallen because it is not known what the developers would have done had they not built low-income housing. If rather than producing low-income housing the developers instead built upscale homes, hotels, or other commercial properties, then much of the output and value added attributable to the LIHTC program would not ‘disappear’ from the Missouri economy but would simply appear as other activity. If, however, developers would definitely not produce any alternative housing (or other goods and services for that matter), then during the six year period economic activity in Missouri would have decreased by approximately \$4.0 billion and the Missouri GSP would have shrunk by approximately \$2.3 billion.

Table 3 also shows the statewide projection of economic impacts from the annual operation of the projects. These numbers are in yearly estimates. It should be remembered that these estimates do not include the operations and maintenance of past projects, those completed before 2000, or of projects awarded credits in 2006 and beyond. Output and value added is largest when operating low-income housing in the primary MSAs as opposed to other parts of the state. The operation of the projects increases GSP by over \$91 million per year and increases economic activity by \$161 million per year. If these projects had not been built, then the economy of Missouri would be smaller by \$91 million dollars for each year that the project would have been operated.

Job Creation Impact

To obtain a better understanding of the employment impacts statewide it is necessary to make adjustments in the total employment figures from IMPLAN and convert them to FTEs. This is because IMPLAN places equal weight on both full time and part time jobs. If, for example, an economic stimulus (construction or operation of housing) resulted in 200 part time jobs where the employees work an average of 35 hours a week, IMPLAN would record this as an increase of 200 jobs, not the 175 full time equivalent jobs that it produced.

For each economic impact that was analyzed, the number of jobs produced in each of the 509 different subsectors was converted to FTEs based upon average weekly hours worked by employees within that

industry for that year. This data comes from the Bureau of Labor Statistics' Current Employment Statistics Program which surveys 160,000 business and 400,000 individual worksites monthly to obtain detailed data on employment and working conditions. For example, in 2000, workers employed in manufacturing worked an average of 41.23 hours or the FTE of 1.03 workers. Therefore, if IMPLAN reported an increase of 50 additional jobs in manufacturing, this figure was converted to its FTE of 51.5 additional jobs. Furthermore, the average number of hours for someone employed in the restaurant business during 2000 was 26.04 hours for the FTE of 0.65 additional jobs. Therefore, if IMPLAN reported an increase of 50 jobs in the restaurant business, this figure was converted to its FTE of 32.5 jobs.

Table 3 illustrates that a total of 43,853 jobs were created from the construction of the projects over the six year period. Total jobs creation of 17,344 in the Kansas City MSA and 19,242 in the St. Louis MSA demonstrates the significant impact that affordable housing construction has on these regions of Missouri. The employment impact from construction after conversion of total jobs created to their FTEs during the six year period is 40,351.

Table 3 also displays statewide projections for both total jobs and FTEs created by the annual operation of the projects. As with the construction of the projects, the majority of the jobs created from annual operations are in the Kansas City and St. Louis MSAs. Statewide, 1,623 jobs or 1,457 FTEs will be needed on a yearly basis to provide for the operation and maintenance of the 327 projects.

Taxes and Fees Impact

Table 3 exhibits the statewide projections for additional taxes that would be collected due to the construction of the 327 LIHTC projects. Over \$183 million in additional taxes were collected in state and local taxes from 2000 through 2005. Just over \$164 million of these additional taxes came from the Kansas City and St. Louis MSAs. The additional fees generated statewide from the construction of the 327 projects are an additional \$11.8 million. Over 42 percent of these additional fees were collected in the Kansas City MSA.

The operations and maintenance of the project produces economic activity in the form of increased employment and spending, which is taxed and creates revenue for the state. The operation of these projects generates an estimated \$7.2 million in taxes each year they are in service.

Multipliers

Discerning a 'multiplier' for low-income housing development and operation is relatively straight forward. Recall that the construction of a project requires inputs. The production of these initial inputs increases output in other industries via forward and backward linkages; that is to say, that one firm's output, such as lumber, becomes another firm's, the developer's, input. The increase in output within these forward and backward linked industries further induces economic activity in other businesses. For example, when a low-income housing project is built, lumber will be needed to construct the building. The increased demand for this lumber is satisfied by a lumber mill, *i.e.*, it is that firm's output. The lumber mill's output, *e.g.*, plywood, has become an input used by the developer. Of course, in order to create the additional plywood used by the developer, the lumber mill must hire more lumberjacks to cut down trees, hire more personnel or increase the hours of employees currently working at the plant, purchase more electricity to run the plant's machinery, etc. These are the indirect effects from the initial increase in input demand that the developer sets in motion. The induced effects occur when the additional income earned as a result of the initial increased demand is spent. This increased income could be spent on restaurant meals, for example, which means that the restaurant must now purchase more food, plates, and silverware, hire more waiters and kitchen staff to attend to the additional customers, etc. Of course, the additional income earned by farmer's selling more food and by waiters serving more customers will

be spent on additional goods and services which increases demand for the inputs needed to produce these additional outputs.

However, since consumption is less than total income due to savings and taxes, the process of incremental increased consumption leading to incremental increased income which further stimulates an additional round of consumption eventually comes to an end. These leakages out of the income-consumption stream can be represented by taxes and savings. In a regional model, we must also include consumption of goods and services produced outside of the region as a leakage since this potential stream of future income and consumption is no longer present in the regional economy.

Table 4 shows the output, value added and employment multipliers for developing low-income housing within each of the four regions for both the construction and operation phases of the projects. A dollar increase in initial production in either Kansas City or St. Louis will have an ultimate effect of approximately \$1.77 (\$1.76 in Kansas City and \$1.77 in St. Louis) on the state economy. In other words, for every dollar of initial increased demand that the developer sets in motion, output will increase in the subsequent rounds of increased incremental consumption and income to produce another 77 cents of output so that total output increases by \$1.77. The same dollar increase in initial construction in a rural area will increase output by \$1.47. In other words, there is a greater amount of ‘leakage’ of the indirect and induced effects in the rural areas than in the two principal MSAs. If residents of Kansas City see their income increase because of an increase in demand for the products that they produce, they have more ‘options’ for spending those dollars ‘locally’ than does the same resident in a rural area. Since there are fewer businesses in rural areas, more of the indirect and induced dollars will ‘leak’ out of the region. The value added multipliers are similar in size and interpretation to the output multipliers. For every \$1 initial increase in value added from building low-income housing, GSP increases by 73 cents. This means that GSP increased \$1.73 on average throughout the state. However, recall that even though the output and value-added multipliers are similar in size, increases in output will be larger than increases in value-added. The employment ‘multiplier’ occurs from each initial job created in constructing low-income housing. We can see that for every initial person hired in Kansas City to build low-income housing, employment will increase by 0.71 for a total increase in employment of 1.71 jobs. The FTEs would be an increase of 1.54 jobs. The state average is an increase of 0.50 jobs for every person initially hired in construction.

For operations, a dollar increase will have an ultimate effect of approximately \$1.85 on the state economy in St. Louis but only a \$1.51 effect in the rural areas. For every \$1 increase in value-added from operations, the GSP will increase \$0.72. For employment, for each initial person hired statewide, total employment will increase by 1.74 jobs and FTEs would increase by 1.56.

	Kansas City	St. Louis	Other Metro	Rural	Average
Construction					
Output	\$ 1.76	\$ 1.77	\$ 1.65	\$ 1.47	\$ 1.66
Value Added	1.89	1.75	1.70	1.57	1.73
Employment - Total	1.71	1.66	1.57	1.48	1.61
Employment - FTEs	1.54	1.52	1.49	1.43	1.50
Operations					
Output	\$ 1.80	\$ 1.85	\$ 1.60	\$ 1.51	\$ 1.69
Value Added	1.79	1.89	1.65	1.56	1.72
Employment - Total	1.83	1.83	1.65	1.67	1.74
Employment - FTEs	1.69	1.61	1.50	1.44	1.56

Net Benefit

As stated earlier, the economic impacts of constructing housing units between 2000 and 2005 were converted into 2004 dollars and the future flows of net benefits from operations was converted to real dollars (*i.e.*, inflation adjusted) at an estimated annual rate of 2.5%. The real net benefits of the LIHTC program, in terms of increased future value added, output, increased tax revenue from induced economic activity, and the ‘cost’ of the tax credit in terms of decreased tax revenue per year for the ten-year lifespan of the credit, was converted to present value dollars over the next 20 years so that the reader can better understand the true impact of the program on the Missouri economy.

The next set of tables presents the final analysis in terms of value added (GSP) and total output impact on the Missouri economy. Table 5 includes the total effect from the LIHTC program in Missouri. Recall that the total effect looks at the low-income housing that has been built between 2000 and 2005; therefore, it does not include housing built before or after this time frame. The construction and operation of the housing projects that were completed between 2000 and 2005 will grow the Missouri economy by over \$3.73 billion. Most of that increase, over \$2.28 billion, will happen in the short term and comes about due to the construction of the housing project while the remaining \$1.44 billion will be spread out over 20 years and comes about due to operating the projects. Furthermore, state and local governments can expect to collect about \$195 million in additional taxes from the construction phase of the housing projects. This positive stream of tax revenue to the state is reduced by the loss of over \$674 million in tax revenue to the state during the operations phase of these projects. This was determined by subtracting the present value of the state LIHTCs that are expected to be claimed by investors over the 10 year credit period from the present value of the additional state and local tax revenue that is estimated to be collected from operation of the projects over 20 years. It is important to understand that the additional taxes collected from construction will occur within the first one to two years of the project and prior to the investor actually receiving the tax credits. In the initial two years of the project, the state actually realizes a net increase in total state revenue and only after the tax credits are available to investors is there a net decrease in tax revenues. When you add the total net present value of real tax revenue generated to the

additional gross state product, we see that the LIHTC program has a positive effect on the state of approximately \$3.25 billion.

	Kansas City	St. Louis	Other Metro	Rural	Total
Value Added					
Construction	\$ 915,105,861	\$ 1,084,946,821	\$ 185,158,986	\$ 102,909,044	\$ 2,288,120,712
Operations	385,005,304	863,692,764	102,385,010	95,548,467	1,446,631,545
Sub-Total	1,300,111,165	1,948,639,585	287,543,996	198,457,511	3,734,752,257
Increased (Decreased) Taxes					
Construction	\$ 97,933,346	\$ 75,956,022	\$ 13,645,267	\$ 8,010,668	\$ 195,545,303
Operations Net of LIHTC claimed	(182,185,249)	(271,273,968)	(108,248,076)	(112,343,791)	(674,051,084)
Sub-Total	(84,251,903)	(195,317,946)	(94,602,809)	(104,333,123)	(478,505,781)
Total	\$ 1,215,859,262	\$ 1,753,321,639	\$ 192,941,187	\$ 94,124,388	\$ 3,256,246,476

We can determine how much ‘bang for the buck’ the state realizes from the LIHTC program by looking at Table 6. In Table 6, we have examined how much additional value added is produced when the state allocates an additional dollar to the LIHTC program. For example, for every dollar of state tax credit granted, it will increase gross state product in Missouri by an average of \$3.34 during the construction phase and will generate an additional \$2.11 in gross state product during the operations phase of the project. Therefore, the state’s LIHTC dollar is generating \$5.45 in additional present value gross state product over the course of the project’s 20 year lifetime. Further examination shows that the state’s allocation of a LIHTC dollar generates an immediate average increase in tax revenue of 29 cents. As before, this occurs during the construction phase of the project. However, over the next 20 years, the state will lose an average of 98 cents as the amount of tax revenue that is surrendered via the tax credits is larger than the additional tax revenue received from the economic activity generated by operating the housing projects. When examining the present value of this positive and negative stream of tax revenue for the state, we see that the state of Missouri will ‘recoup’ on average 31 cents (\$1.00 - \$0.69) of its LIHTC dollar. This is in contrast to the rural and smaller metro areas of the state, where they will only recoup between 3 and 10 cents for each LIHTC dollar.

	Kansas City	St. Louis	Other Metro	Rural	Weighted Average
Value Added					
Construction	\$ 4.80	\$ 3.52	\$ 1.77	\$ 0.95	\$ 3.34
Operations	2.02	2.80	0.98	0.89	2.11
Sub-Total	6.82	6.32	2.75	1.84	5.45
Increased (Decreased) Taxes					
Construction	\$ 0.51	\$ 0.25	\$ 0.13	\$ 0.07	\$ 0.29
Operations Net of LIHTCs claimed	(0.95)	(0.88)	(1.03)	(1.04)	(0.98)
Sub-Total	(0.44)	(0.63)	(0.90)	(0.97)	(0.69)
Total \$	\$ 6.38	\$ 5.69	\$ 1.85	\$ 0.87	\$ 4.76

Table 7 presents a similar analysis to Table 5 except that it is for total output rather than value added. We can see that economic activity increased in the state by over \$6.5 billion with most of that increase, approximately \$4 billion, coming from construction while the remaining 2.5 billion dollars occurs over the span of 20 years. Multipliers (Table 8) derived based on this data have similar conclusions as before. For every dollar of LIHTC that the state distributes, it generates an average of \$9.60 in economic activity. Most of this increased economic activity, approximately \$5.88, occurs during the construction phase while the remaining portion occurs during the operations phase of the projects.

	Kansas City	St. Louis	Other Metro	Rural	Total
Output					
Construction	\$ 1,704,576,674	\$ 1,791,361,382	\$ 328,878,724	\$ 205,040,591	\$ 4,029,857,371
Operations	649,034,151	1,532,019,341	187,595,023	\$ 181,625,896	\$ 2,550,274,411
Sub-Total	2,353,610,825	3,323,380,723	516,473,747	\$ 386,666,487	\$ 6,580,131,782
Increased (Decreased) Taxes					
Construction	\$ 97,933,346	\$ 75,956,022	\$ 13,645,267	\$ 8,010,668	\$ 195,545,303
Operations Net of LIHTCs claimed	(182,185,249)	(271,273,968)	(108,248,076)	(112,343,791)	(674,051,084)
Sub-Total	(84,251,903)	(195,317,946)	(94,602,809)	(104,333,123)	(478,505,781)
Total	\$ 2,269,358,922	\$ 3,128,062,777	\$ 421,870,938	\$ 282,333,364	\$ 6,101,626,001

Table 8: Impact in Present Value per Total LIHTC Dollar

Output						
	Kansas City	St. Louis	Other Metro	Rural	Weighted Average	
Output						
Construction	\$ 8.93	\$ 5.82	\$ 3.14	\$ 1.90	\$ 5.88	
Operations	3.40	4.97	1.79	1.68	3.72	
Sub-Total	12.33	10.79	4.93	3.58	9.60	
Increased (Decreased) Taxes						
Construction	\$ 0.51	\$ 0.25	\$ 0.13	\$ 0.07	\$ 0.29	
Operations Net of LIHTCs claimed	(0.95)	(0.88)	(1.03)	(1.04)	(0.98)	
Sub-Total	(0.44)	(0.63)	(0.90)	(0.97)	(0.69)	
Total	\$ 11.89	\$ 10.16	\$ 4.03	\$ 2.61	\$ 8.91	

There is one last point that deserves attention. In the analysis so far, it has been assumed that all of the low-income housing projects that are developed during the time frame under study would not have been built if not for the state LIHTC. However, recall that most recipients of the state LIHTC are also receiving a similar sized federal tax credit. We are interested in knowing how much marginal (additional) economic activity can be attributed to the state LIHTC alone. The methodology of differentiating the individual effects of the federal program from the state program is fairly straightforward.

First one must ask, “how much low-income housing would be produced without any credits—federal or state?” Then we have to determine how much additional low-income housing production occurs from the federal credit alone. Finally, the as of yet unassigned production of low-income housing must be from the state tax credit program.

For example purposes only, suppose that 100 low-income projects are produced in a state within a given year. If it is determined that 66 of those projects would have been produced with or without the federal and state credits, then the federal and state credits are responsible for spurring the production of the remaining 34 projects. It would be spurious logic to assign the full economic impact from building all 100 projects as originating from the federal and state program even if all 100 projects received tax credits.

If further analysis showed that in the absence of the state program, 15 of the projects would have been produced, then we can allocate the economic activity from those 15 projects as being prompted by the federal credit. This would, of course, mean that 19 of the projects completed in that year were a direct result of the state LIHTC program. This point is made with regard to housing “unit” or “project” production only and without regard to the quality of the housing that may be produced without the state or federal credit. In our example, housing may have been produced without the state or federal credits but the units produced or “substituted” for the tax credit housing may not be of the same type or quality in terms of construction design and materials, number or quality of amenities, location in relation to schools, shopping, jobs or medical services.

However, it is worth noting that some level of housing production would occur without the federal or state credits and this must be taken into consideration when studying the above information. Sinai and

Waldfoegel (2005) suggest that the housing substitution rate could be as high as 50% to 66%. However, these estimates are in contrast to other findings which suggest that the state program, especially when considered in conjunction with tax-exempt bonds coupled with 4% credits received by many projects, could be responsible for producing as many as 74% of the projects. It is probably important to conduct further analysis on this point. Unfortunately, the time and effort that would need to be used to develop such a model is beyond the scope of the current research report.

Social Analysis

When looking at the cost/benefit of the Missouri LIHTC, you must look beyond just the economic value to other benefits the program brings to the state. As illustrated in the following discussion, the social impact of the state tax credits provides such a benefit. While many of these benefits are immeasurable, their impact is significant none the less.

(Provided by Dr. Bernard McCarthy, The Community and Social Issues Institute, Missouri State University)

The Need for Low-income Housing

The stated goal of the Housing Act of 1949 is “a decent home and suitable living environment for every American family.” Americans have been pursuing that goal since then. In 2007, we are still trying to achieve that goal. The demand for decent homes and suitable environments for Americans and Missourians in particular have exceeded the supply. It is projected that the production of low-income housing for the poor is declining, placing great strain on the poor to find affordable and habitable housing. The Low-Income Housing Tax Credit program is one of the principal programs designed to produce suitable and habitable housing for low-income people. This program is offered by the federal government and by the state of Missouri and is considered to be the primary stimulus for the production of affordable and decent, low-income housing.

The need for low-income housing in Missouri is high. Consider the findings in a report issued in 2006 by the Missouri Housing Trust Fund:

- There are over 98,000 families in Missouri paying more than 50% of their income for rent (2000 Census Data)—any amount over 30% places undue strain on other aspects of the family budget.
- Over 71,000 Missouri families are living in substandard housing.
- The gap between rent and income has gotten so bad that low-income workers, elderly or disabled in Missouri are teetering on the edge of homelessness (Kansas City Star, Dec. 15, 2005).
- An average of 16,425 homeless people are being sheltered per day—an increase of 42% over the average per day census in 1998 (Census of Missouri Shelter Providers for Homeless People, 2001 Report, Missouri Association for Social Welfare).
- Families with children are among the fastest growing segments of the homeless population—this number increased 60% from 1998 to 2001 (MASW 2001 Report).
- Multiple agencies throughout the state have indicated they have had to turn people needing housing and financial assistance away because they are under funded and unable to serve the need.

- Appeals for shelter assistance increased 6% from 2004 to 2005. Lack of affordable housing and low-paying jobs topped the list of root causes for homelessness (U.S. Conference of Mayors Report, Dec. 20, 2005).

Another study conducted by the Missouri Budget Project recently summarized the 2000 U.S. Census findings regarding the impact of poverty on Missouri. They found that the poverty rate was growing. Poverty was significantly higher in the period 2004-2005 at 11.9% of the population as compared to 2001 when the level was at 9.4%. They also found that 17.7 % of Missouri children were living in poverty. Moreover, according to the U.S. Census, 659,000 or 11.9% of the population in Missouri lived in poverty and of these 243,000 were children and 61,000 were seniors. These numbers have serious implications for the state in terms of the need to provide affordable, safe and suitable housing to the most vulnerable in society, *i.e.*, the poor, the disabled and the elderly, and in terms of the attendant costs associated in responding to their needs via other social and health systems.

Benefits of Affordable and Suitable Low-Income Housing

The significance regarding the impact of low-income housing can not be overstated. Through production subsidies from the state and federal government in the form of tax credits housing developers build multi-family and senior housing facilities for low-income residents. These facilities provide services designed to improve the quality of life of residents and go beyond simply providing shelter. Services offered may include social services, child care, training classes for worker readiness and job development, food and health care services, and recreational activities.

One study in Oregon found the following beneficial impacts when they examined the state program:

- Residents achieved housing stability and minimized their risk of falling into homelessness.
- Residents experienced a reduced housing cost burden (they paid no more than 30 % of their income for rent) which permitted households to spend a larger percentage of their income on food, clothing and other necessities (health care, medicine, transportation, etc).
- The LIHTC housing, both new and rehab, provided safer neighborhoods and less crowded living quarters for residents and this directly reduced the problems associated with crowding.
- Children in the subsidized housing improved their school performance and dropout rates were reduced.
- Residents were found to have lower levels of psychological distress and improved mental health.
- Children appeared to have an increase in prosocial behavior and motivation.
- Improvements in the overall health of residents were seen.

(“Housing as an Economic Stimulus”, The Economic and Community Benefits of Affordable Housing Development, Oregon Housing and Community Services, 2005):

A Georgia study also found similar improvements in the overall conditions of residents living in the affordable housing provided by the LIHTC program, particularly in the improvement of the overall health of the residents. By improving the affordability and quality of housing for poor people, health improvements of the residents were a direct and immediate outcome. One reason for this is that residents would no longer be exposed to harmful conditions associated with living in substandard housing. This would include exposure to poorly maintained homes that are associated with such problems as lead based

paint, mold and infestations of insects. Lead based paint exposure leads to health related problems including learning difficulties for young children. Mold associated with poorly ventilated housing leads to the development of asthma and other upper respiratory illnesses that lead to disabling conditions and high health care costs. These illnesses lead to a loss of productivity for adults and poor school performance for children. Families who choose to avoid living in substandard housing find they must pay a greater share of their income for housing and the sacrifice they make for this choice is great. By shifting funds to housing, compromises or accommodations must be made in the family budget for such items as food, clothing, transportation, medicines and other health related costs. (“The Economic Impact of Low-Income Housing Tax Credits in Georgia”, The University of Georgia, May 2006).

Cost of Not Providing Affordable Housing

A recent study found the failure to provide adequate affordable housing had a direct material effect on three important components of the community life. First, it resulted in lost economic opportunity in terms of the costs associated with the construction of new and rehab units. Second, the failure to provide affordable and safe housing increased transportation costs by requiring workers to travel greater distances to their jobs and, third, poor quality housing results in greater social costs especially related to education and healthcare that must be borne by the community. The third effect was on education and health care. The Lee County study estimated the cost of inadequate housing on education and health care to be 5.4 million dollars. (“The Public Costs of Inadequate Affordable Housing in Lee County Florida”, September 2002).

The National Alliance to End Homelessness found the following costs associated with homelessness:

- More costly health care: People who are homeless are more likely to access costly health care services such as hospital emergency rooms for routine health care.
- Increased hospitalizations and costs: A study of hospital admissions of homeless people in Hawaii revealed that 1,751 adults were responsible for 564 hospitalizations and \$4 million in admission cost. Their rate of psychiatric hospitalization was over 100 times their non-homeless cohort. The researchers conducting the study estimate that the excess cost for treating these homeless individuals was \$3.5 million or about \$2,000 per person.
- Increased hospital stays: According to a report in the New England Journal of Medicine, homeless people spent an average of four days longer per hospital visit than comparable non-homeless people. This extra cost, approximately \$2,414 per hospitalization, is attributable to homelessness.
- Increased substance abuse: In addition to the direct costs, the alliance found homelessness was associated with addictive disorders. Treatment of homeless people for drug and alcohol related illness was expensive. This substance abuse consequently increases the risk of both incarceration and HIV exposure. This, in turn, poses a substantial and long term cost to our criminal justice and medical systems.
- Increased cost of substance abuse treatment: Physician and health care expert Michael Siegel found that the average cost to cure an alcohol related illness is approximately \$10,660. Another study found that the average cost to California Hospitals of treating a substance abuser is about \$8,360 for those in treatment, and \$14,740 for those who are not.
- Increased costs of incarcerations: The probability that a homeless person will spend time in jail or prison is higher than the average citizen. If arrested they seldom make bail. The average cost

to taxpayers for one night in jail is \$54.00. According to a University of Texas two-year survey of homeless individuals, each person cost the taxpayers \$14,480 per year, primarily for overnight jail stays. A typical cost of a prison bed in a state or federal prison is \$20,000 per year.

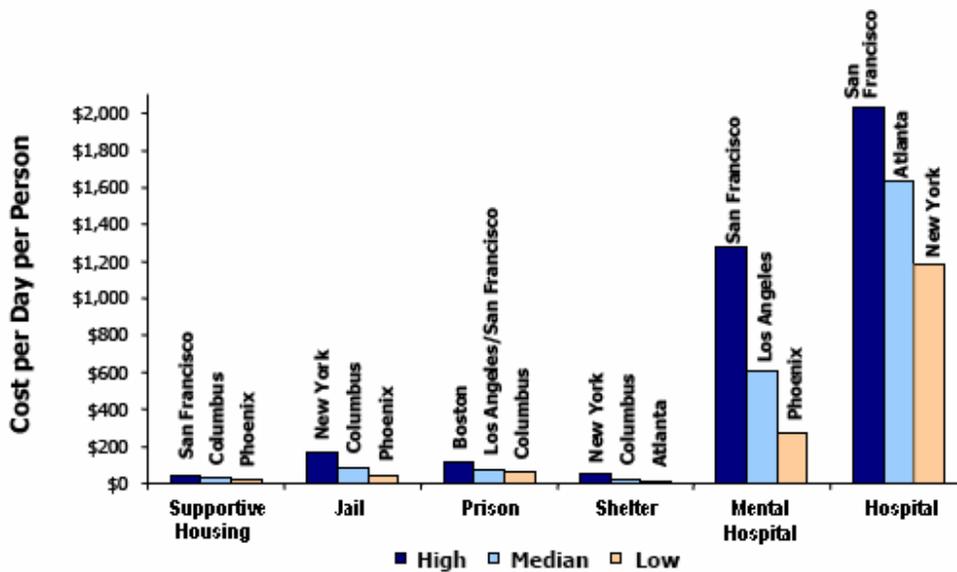
- **Emergency Shelter:** Emergency shelter is a costly alternative to permanent housing. While it is sometimes necessary for short-term crises, it too often serves as long-term housing. The cost of an emergency shelter bed funded by HUD's Emergency Shelter Grants program is approximately \$8,067 more than the average annual cost of a federal housing subsidy (Section 8 Housing Certificate).
 (“National Alliance to End Homelessness”, The Cost of Homelessness, <http://naeh.org/section/tools/tenyearplan/cost>)

Another study conducted by the Lewin group surveyed several communities in the United States to get cost estimates of what failing to provide decent and affordable housing to people would be. The cities surveyed are geographically dispersed and include Atlanta, Boston, Chicago, Columbus, Los Angeles, New York, Phoenix, San Francisco and Seattle. (“The Costs of Serving the Homeless in Nine Cities”, The Lewin Group, 2004)

Cost Ranges per Day:

- Supportive housing \$ 20.54 to \$ 42.10
- Jail \$ 45.84 to \$ 164.57
- Prison \$ 47.49 to \$ 117.08
- Shelter \$ 11.00 to \$ 54.42
- Mental hospital \$ 280.00 to \$ 1,278.00
- Hospital \$ 1,637.00 to \$ 2,184.00

Cost Estimates – High/Median/Low City



Source: The Lewin Group

It is clear from the above that the material costs of not providing affordable and decent housing are considerable.

Most recently a study was completed in North Carolina that examined the impact of substandard housing on children and estimated that the total costs due to substandard housing-attributable childhood illnesses, injuries, diseases and disabilities among North Carolina children was nearly \$95 million in 2006 dollars. (The North Carolina Housing Coalition, 2007)

Summary

What are the potential costs of not providing affordable housing for the working poor, low-income, very low-income and the homeless?

- Greater risk of health problems related to poor housing conditions and inadequate health care. Higher risk of exposure to environmental contaminants.
- Seniors are forced to enter nursing homes or assisted living facilities earlier in life and an increased cost to state programs.
- Increased rates of emotional stress.
- Higher cost burden of housing causes less money to be available for food, clothing and other necessities. This leads to poor nutrition and a myriad of health problems.
- Poorer health outcomes and increased use of public health services
- Increased housing instability and greater risk of homelessness.
- Poor school performance for children and higher drop out rates.
- Increased likelihood of state intervention to remove children from squalid conditions and increase in justice processing.
- Greater exposure to violence.

What are the associated costs of education, public health, social service, law enforcement criminal justice and welfare systems and institutions and the loss of federal matching funds?

- Education: student performance suffers and dropout rates are higher for students who live in substandard housing or are homeless.
- Public Health: public health costs increase when people live in substandard housing due to the increased risk of disease and environmental contaminants.
- Social Service/Welfare: costs increase in this area due to increased demand for services by people in substandard housing. Also, children living in these conditions are at increased risk of being removed and placed in the foster care system.
- Law Enforcement and Criminal Justice: people living in substandard or homeless conditions are not only at increased risk of being arrested but also being victimized.

It is difficult to predict the exact costs of failing to provide suitable housing to the poor. Various studies have attempted to estimate the costs in their communities and that cost has been high. In North Carolina, the impact of substandard housing on children's health was estimated to be 54 million dollars. In Florida, in one county, the impact of substandard housing on resident's health and educational services alone was estimated to be 5.4 million dollars.

The Missouri LIHTC program is one of the major, if not the primary force in producing affordable and decent housing for poor people in Missouri. Several years ago a consulting firm contracted with HUD found that production subsidies, such as the one provided by LIHTCs, ensure that housing units are developed for the most needy: the elderly, the disabled and large families. Without the production of this type of housing, the poor would be pushed into homelessness, substandard housing, with its myriad of ills, and/or required to pay a larger share of their income towards the acquisition of adequate and safe housing. This in turn leads to less money available for necessities of life, especially for children in terms of food, clothing, transportation and health care.

The costs of not providing adequate and affordable housing can be quite high and lead to a variety of ills and social costs to the state of Missouri. Citizens living in substandard housing can be expected to have an increased risk of homelessness, more housing instability (and associated problems), increased costs for housing for the poor and attendant impact on family budgets, increased health care demand and costs, increases in mental illness, and poor school performance by children. The long term effects are acute but more difficult to measure. These include health and educational problems that have long term effects. It is clear they will have higher rates of chronic illnesses and their overall life chances will be diminished.

The consequences of failing to provide affordable, safe and decent housing are serious. First, they may be driven into homelessness or they live in dilapidated and unsafe housing. While on the surface homelessness does not appear to have much social cost, (out of sight, out of mind) in reality the costs are very high, both for the individual and society. For the individual, leaving ones home through eviction or other means is a devastating experience and comes with a high material and psychological cost. For society, the attendant social costs of maintaining that individual or family in another institutional system is more costly than subsidized housing.

Efficiency of the Missouri LIHTC

Understanding the economic efficiency of the state tax credit requires a clear understanding of how the state tax credit works and the economic factors that impact it from the perspective of private developers or investors who provide equity to the program. Key concepts in understanding the credit are enumerated below.

How the State Program Works:

The state LIHTC is a 10-year credit which mirrors the federal LIHTC structure whereby an investor makes an upfront investment today to receive a future stream of tax credits over a 10-year period. Using a 10-year credit produces housing today financed with tax credit dollars that will be paid for over the next 10 years or possibly more. For example, tax credits awarded in October 2007 can not be claimed by the investor immediately as an offset against the investor's tax liability. First, the housing must be constructed and then leased to qualified tenants before the tax credits are earned and are actually available to the developer or investor. Second, after the housing is placed in service, the property is monitored to ensure that it remains in compliance with the stated objectives of providing affordable housing to those truly in need. In the event the housing is not used for its intended purpose, the state has the ability to recapture credits that have been claimed and can revoke credits issued to the project on a go-forward basis. Tax credit recapture is designed to protect the state's financial interest in the event the housing is not used to serve qualified low-income tenants.

How the Private Investor Views the Credit:

From a financial perspective, the investor views the investment in affordable housing and the related state tax credits just as the investor would view any other investment in real estate, stock, bonds, etc. The investor makes a capital outlay today with the anticipation of receiving a stream of tax credits over a future 10-year period. The investor understands that in many cases this tax credit stream will not begin for a period of time during which the project is constructed and leased to qualified low-income tenants. The investor considers the time value of money in determining how much to invest in exchange for the right to receive a future stream of economic benefits in the form of tax credits as well as the impact of federal taxes on his rate of return.

Two major factors impacting the amount of money an investor is willing to pay for an investment in state credits are (1) the discounted time value of money and (2) federal and state income tax consequences. Since the investor makes an upfront initial investment but receives a flow of economic benefits over a 10-year period, the investor will discount the amount they are willing to pay today taking into consideration the time value of money and the investor's required rate of return. The investor also recognizes that if a state tax credit is claimed the investor will lose a federal tax deduction for state income taxes paid in an amount equal to the yearly state LIHTC. If the investor had paid the state tax liability with cash, the investor would then be allowed to deduct the state income taxes paid against federal taxable income. Since the investor is using state tax credits instead of cash to pay state tax liability, the federal deduction is lost.

To demonstrate the impact of the time value of money and federal and state income tax consequences, a hypothetical Schedule of Investor Benefits is set out below (see EXHIBIT 1). This example computes the amount per dollar of credit an investor might be willing to pay based on specific investment assumptions. The illustration includes the following assumptions:

1. The investor is a partner in a partnership owning a qualified project. The investor pays \$1 million in 2007 as a capital contribution to the partnership for the right to receive \$285,714 of state credits each year for a period of 10 years for total credits of \$2,857,140. It is further assumed the 10-year credit period begins in 2009.
2. All anticipated yearly tax credits are actually received by the investor and claimed on the investor's state tax return.
3. The investor is a corporation paying tax based upon a marginal federal tax rate of 35%.
4. The investor's required rate of return is between 10.5% and 11%.

- The investor gives no consideration to the potential tax benefit that may occur upon disposition of the investment after receipt of all credits throughout the 12-year investment period

EXHIBIT 1 SCHEDULE OF INVESTOR BENEFITS CORPORATE INVESTOR – 10-YEAR CREDIT INVESTMENT								
Year	Investment	State Tax Credits	Loss of Federal Tax Deductions	(Increase)/Decrease in Federal Tax	Combined After - Tax Benefits	Net After - Tax Benefits	Cumulative Net After - Tax Benefits	Net Present Value
	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8
2007	\$1,000,000	0	0	0	0	(\$1,000,000)	(\$1,000,000)	(\$1,000,000)
2008	0	0	0	0	0	0	(1,000,000)	0
2009	0	285,714	(285,714)	(100,000)	185,714	185,714	(814,286)	151,518
2010	0	285,714	(285,714)	(100,000)	185,714	185,714	(628,572)	136,860
2011	0	285,714	(285,714)	(100,000)	185,714	185,714	(442,858)	123,619
2012	0	285,714	(285,714)	(100,000)	185,714	185,714	(257,144)	111,660
2013	0	285,714	(285,714)	(100,000)	185,714	185,714	(71,430)	100,857
2014	0	285,714	(285,714)	(100,000)	185,714	185,714	114,285	91,100
2015	0	285,714	(285,714)	(100,000)	185,714	185,714	299,999	82,286
2016	0	285,714	(285,714)	(100,000)	185,714	185,714	485,713	74,325
2017	0	285,714	(285,714)	(100,000)	185,714	185,714	671,427	67,135
2018	0	285,714	(285,714)	(100,000)	185,714	185,714	857,141	60,640
2019	0	0	0	0	0	0	857,141	0
Total	\$1,000,000	\$2,857,140	(\$2,857,140)	(\$1,000,000)	\$1,857,140	\$857,140		\$0

Federal rate 35%

Price 10-Year Credit = \$0.350

Projected After-Tax IRR is 10.71%

Column 1: Capital contribution from investor.

Column 2: Annual state tax credits available to investor.

Column 3: Represents loss of state tax deduction on federal return.

Column 4: Increase in Federal taxes due to reduced state tax deduction. (Column 3 * federal tax rate)

Column 5: Column 2 (state credit benefit) plus Column 4 (increase in federal tax).

Column 6: Column 5 - Column 1.

EXHIBIT 1 demonstrates that the investor would be willing to pay \$.35 per credit in order to obtain a projected after-tax rate of return of 10.71%. Column 1 of EXHIBIT 1 shows the investors initial cash investment of \$1 million. Column 2 shows the annual state tax credits of \$285,714 received each year over 10 years (\$285,714 yearly credits x 10 years = \$2,857,140 total credits). Column 3 shows the loss of the federal tax deduction that occurs as a result of claiming the tax credit instead of paying the tax with cash. Each year when the investor claims \$285,714 of state tax credits, the investor loses a federal tax

deduction of \$285,714. Column 4 shows the increase in federal income taxes resulting from the lost state income tax deduction assuming a federal tax rate of 35% ($\$285,714 \text{ state credit} \times 35\% = \$100,000$ increase in federal taxes). Column 4 demonstrates that the investor will pay total additional federal taxes of \$1,000,000 as a result of the investment. Column 5 shows the yearly after-tax benefit of claiming the credit and is computed by taking the yearly state tax credit amount shown in Column 2 and subtracting the yearly increase in federal taxes shown in Column 4 ($\$285,714 \text{ state tax credit} - \$100,000 \text{ increase in federal taxes} = \$185,714 \text{ after-tax benefit}$). In other words, Column 5 shows that for each year the investor claims tax credits of \$285,714, the investor only realizes an after tax benefit of \$185,714 due to increased federal taxes resulting from the loss of the federal deduction for state income taxes (which are now satisfied by utilizing the state LIHTC instead of cash). Column 6 shows the yearly after tax cost/benefit of the investment. The \$1 million investment is shown as a negative number in Column 6 as this is the investor's out-of-pocket cash investment. Column 7 shows the cumulative net after-tax benefit from year to year. Column 8 computes the net present value of the net after-tax benefits in Column 6.

The above example demonstrates the impact that both the discounted time value of money and federal tax consequences have on the per dollar value of the tax credit to the investor. The value of the credit is discounted due to the fact the investor makes a cash outlay upfront while receiving financial benefits over a 10+ year period in the future. In other words, the state receives the advantage of financing the production of housing today with tax credits that will be redeemed over a 10+ year period. This is a financing feature of the tax credit that is very powerful to the state in terms of housing production. This is no different in concept from financing in the private sector where individuals and businesses borrow money to finance homes and manufacturing plants and pay interest to their lender. The investor simply considers the fact that the tax credits are received over future years and discounts their value based upon the concept of time value of money.

The value of the credit to an investor is also reduced as a result of the federal income tax consequences related to claiming a state tax credit. This discount provides no direct benefit to the state; it is simply dollars lost to the federal government in terms of increased federal taxes. As discussed below, a successful change in the federal tax law to reduce or eliminate the unfavorable federal tax impact on the state credit may significantly increase the credits' value and correspondingly the amount investors are willing to pay per dollar of credit received.

The credit is also discounted to provide the investor a reasonable rate of return given the risks associated with the investment and alternative investment options available in the market place and to pay for transaction costs.

In EXHIBIT 1, Column 4 shows the amount of increased federal income taxes paid by the investor as a result of claiming the state credit. If this feature of the federal tax law were changed so that a portion or all of the state tax deduction was not lost, a substantial increase in value of the state tax credit could occur. The potential increase in the value of the credit is illustrated in EXHIBIT 2 below. EXHIBIT 2 is based on the same assumptions as EXHIBIT 1 with one exception. In EXHIBIT 2, it is assumed that the investor loses a federal tax deduction only to the extent that the state tax credits claimed each year exceed the investor's ratable cost in each tax credit.

EXHIBIT 2
SCHEDULE OF INVESTOR BENEFITS
CORPORATE INVESTOR – 10-YEAR CREDIT INVESTMENT

Year	Investment	State Tax Credits	Loss of Federal Tax Deductions	(Increase)/Decrease in Federal Tax	Combined After - Tax Benefits	Net After - Tax Benefits	Cumulative Net After - Tax Benefits	Net Present Value
	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8
2007	\$1,000,000	0	0	0	0	(\$1,000,000)	(\$1,000,000)	(\$1,000,000)
2008	0	0	0	0	0	0	(1,000,000)	0
2009	0	231,506	(131,506)	(46,027)	185,479	185,479	(814,521)	151,394
2010	0	231,506	(131,506)	(46,027)	185,479	185,479	(629,042)	136,778
2011	0	231,506	(131,506)	(46,027)	185,479	185,479	(443,563)	123,573
2012	0	231,506	(131,506)	(46,027)	185,479	185,479	(258,084)	111,643
2013	0	231,506	(131,506)	(46,027)	185,479	185,479	(72,605)	100,864
2014	0	231,506	(131,506)	(46,027)	185,479	185,479	112,873	91,127
2015	0	231,506	(131,506)	(46,027)	185,479	185,479	298,352	82,329
2016	0	231,506	(131,506)	(46,027)	185,479	185,479	483,831	74,381
2017	0	231,506	(131,506)	(46,027)	185,479	185,479	669,310	67,200
2018	0	231,506	(131,506)	(46,027)	185,479	185,479	854,789	60,712
2019	0	0	0	0	0	0	854,789	0
Total	\$1,000,000	\$2,315,060	(\$1,315,060)	(\$460,270)	\$1,854,790	\$854,790		\$0

Federal rate 35%

Price 10-Year Credit = \$0.4320

Projected After-Tax IRR is 10.69%

Column 1: Capital contribution from investor.

Column 2: Annual state tax credits available to investor.

Column 3: Assumes federal law is changed to allow deduction of cost of state credits ratably over 10-year period.

Column 4: Increase in Federal taxes due to reduced state tax deduction. (Column 3 * federal tax rate)

Column 5: Column 2 (state credit benefit) plus Column 4 (increase in federal tax).

Column 6: Column 5 - Column 1.

When this occurs, the investor receives a federal tax deduction of \$100,000 per year (\$1 million investment divided by 10 years). Under the current federal tax system, the amount of lost tax deduction is equal to the amount of state tax credit claimed. In EXHIBIT 2, the lost tax deduction (Column 3) is the amount of state credit claimed each year, or \$231,506, less one-tenth of the investors cost in the credits of \$100,000, for a net loss of federal tax deduction of only \$131,506. If this change were implemented, the value of each dollar of tax credit increases to \$.432 while still providing the investor an after- tax rate of return of 10.69%.

If taken one step further and the federal law is changed so that no loss in federal tax deduction occurred, the value of the credit to the investor would increase to \$.5367 per dollar of state tax credit while still providing the investor with an after-tax rate of return of 10.78%. This additional increase in the value of

the credit is illustrated in EXHIBIT 3 below. EXHIBIT 3 is based on the same assumptions as EXHIBIT 1 with one exception. In EXHIBIT 3, it is assumed that the investor is able to claim a federal income tax deduction for the full amount of the state credit used, therefore, there is no loss in federal deductions to the investor based upon their purchase and use of the state LIHTC.

EXHIBIT 3
SCHEDULE OF INVESTOR BENEFITS
CORPORATE INVESTOR - 10-YEAR CREDIT INVESTMENT

Year	Investment	State Tax Credits	Loss of Federal Tax Deductions	(Increase)/ Decrease in Federal Tax	Combined After - Tax Benefits	Net After - Tax Benefits	Cumulative Net After - Tax Benefits	Net Present Value
	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8
2007	\$1,000,000	\$0	0	0	0	(\$1,000,000)	(\$1,000,000)	(\$1,000,000)
2008	0	0	0	0	0	0	(1,000,000)	0
2009	0	186,333	0	0	186,333	186,333	(813,667)	151,845
2010	0	186,333	0	0	186,333	186,333	(627,334)	137,074
2011	0	186,333	0	0	186,333	186,333	(441,001)	123,741
2012	0	186,333	0	0	186,333	186,333	(254,668)	111,704
2013	0	186,333	0	0	186,333	186,333	(68,335)	100,838
2014	0	186,333	0	0	186,333	186,333	117,998	91,029
2015	0	186,333	0	0	186,333	186,333	304,331	82,174
2016	0	186,333	0	0	186,333	186,333	490,664	74,181
2017	0	186,333	0	0	186,333	186,333	676,997	66,965
2018	0	186,333	0	0	186,333	186,333	863,330	60,451
2019	0	0	0	0	0	0	863,330	0
Total	\$1,000,000	\$1,863,330	\$0	\$0	\$1,863,330	\$863,330		\$0

Federal rate 35%

Price 10-Year Credit = \$ 0.5367

Projected After-Tax IRR is 10.78%

Column 1: Capital contribution from investor.

Column 2: Annual state tax credits available to investor.

Column 3: Assumes federal law is changed to allow full state tax deduction as if paid

Column 4: Increase in Federal taxes due to reduced state tax deduction. (Column 3 * federal tax rate)

Column 5: Column 2 (state credit benefit) plus Column 4 (increase in federal tax).

Column 6: Column 5 - Column 1.

As illustrated in EXHIBIT 2 and EXHIBIT 3, the value of the state tax credit could potentially increase to between \$.43 and \$.53 while still providing the investor with a consistent rate of return with a successful change in the federal tax law reducing or eliminating the discount associated with the lost state tax deduction for federal tax purposes. If structured properly, such a change would have no impact on the ability of the state to continue financing housing with the 10-year credit program currently in place and would require no change in Missouri legislation.

It is important to note that there are various and often complex and sophisticated methods of structuring state tax credit transactions for delivery of state tax credits to investors, and that the structure used above is provided as an example for illustrative purposes only. Every investment transaction is unique with many variables that must be taken into consideration (investor required rate of return, timing of capital payments, etc.) and any change in the assumptions used in EXHIBITS 1, 2 and 3 above could result in a materially different result.

Finally, there are numerous other factors that will influence the amount an investor is willing to pay for an investment in state LIHTC projects, most of which relate in one way or another to the amount of perceived risk associated with the project. Recently, the Internal Revenue Service issued guidance related to certain non-traditional transactions suggesting tax consequences that may be adverse in certain circumstances. This guidance has generated discussion among investors and developers and has created a degree of uncertainty. Changing the federal tax law to reduce or eliminate the lost tax deduction for 10-year tax credit investments made through partnerships could have the additional benefit of providing certainty to investors and developers in the state of Missouri.

Certificated Credit

Many developers expressed an interest in having the state LIHTC program changed from what is now a pass-through credit flowing from an ownership interest in a partnership to a certificated credit. However, there was not a general consensus on this issue and it was beyond the scope of this study. Further study of the impact on compliance, recapture, pricing and financing would be necessary to fully evaluate this alternative.

Exit Tax Relief

In 2007, legislation was introduced to the House of Representatives with the goal of providing a tax incentive to preserve affordable housing which is sold or exchanged to purchasers who agree to keep the properties affordable for 30 years after transfer. The proposal addresses the problem of substantial exit taxes that often occur when owners of older properties look to sell or transfer their properties. Many properties that have been in service for 15 or more years are deteriorated, at risk of being converted to market rate housing and in need of substantial rehabilitation. Owners of these properties are often unwilling to invest the additional capital needed for maintaining their properties and equally unwilling to sell the properties due to significant exit taxes and thus continue to operate their properties in a deteriorated condition. In some instances, the exit taxes resulting from a sale can equal or exceed the sales price. By seeking federal legislation designed to eliminate or reduce exit taxes, it may be possible to increase the availability of quality affordable housing through sale or transfer of older existing properties to private developers who are willing to rehabilitate the housing while maintaining its affordability for years.

Appendix A

Table A1:
Direct, Indirect and Induced Impacts - Kansas City Area

IMPACTS FROM CONSTRUCTION				
	Economic Indicators			
	Total Output	Value Added	Income	Employment
Direct Impact	\$ 50,210,942	\$ 25,482,038	\$ 22,617,120	\$ 534
Indirect Impact	14,942,766	6,920,452	5,513,112	145
Induced Impact	23,504,319	14,026,944	7,656,350	228
Total Impact	88,658,027	47,798,435	35,786,580	907
Type 2 Multiplier (D/A)	1.77	1.88	1.58	1.70
State and Local Tax Impact:	10,276,218			
Economic Impact per \$1 net tax loss:	7.76			
IMPACTS FROM ONE YEAR'S OPERATION				
	Economic Indicators			
	Total Output	Value Added	Income	Employment
Direct Impact	\$ 1,207,627	\$ 716,596	\$ 516,208	\$ 11
Indirect Impact	403,878	237,355	161,471	4
Induced Impact	556,868	332,322	181,403	5
Total Impact	2,168,373	1,286,273	859,089	21
Type 2 Multiplier (D/A)	1.80	1.79	1.66	1.83
State and Local Tax Impact:	278,393			

Table A2:
Direct, Indirect and Induced Impacts - St. Louis Area

IMPACTS FROM CONSTRUCTION				
	Economic Indicators			
	Total Output	Value Added	Income	Employment
Direct Impact	\$ 75,917,006	\$ 45,459,790	\$ 40,959,809	\$ 844
Indirect Impact	18,820,337	10,871,599	7,300,548	185
Induced Impact	39,690,559	23,511,757	13,058,126	378
Total Impact	134,427,902	79,843,147	61,318,484	1,406
Type 2 Multiplier (D/A)	1.77	1.76	1.50	1.67
State and Local Tax Impact:	17,078,023			
Economic Impact per \$1 net tax loss:	13.79			
IMPACTS FROM ONE YEAR'S OPERATION				
	Economic Indicators			
	Total Output	Value Added	Income	Employment
Direct Impact	\$ 5,063,763	\$ 2,791,576	\$ 1,930,466	\$ 51
Indirect Impact	2,043,792	1,150,262	810,396	21
Induced Impact	2,275,382	1,347,896	748,590	22
Total Impact	9,382,937	5,289,896	3,489,452	93
Type 2 Multiplier (D/A)	1.85	1.89	1.81	1.83
State and Local Tax Impact:	1,150,499			

Table A3:
Direct, Indirect and Induced Impacts - Other Metro Area

	IMPACTS FROM CONSTRUCTION			
	Total Output	Economic Indicators		
		Value Added	Income	Employment
Direct Impact	\$ 20,498,499	\$ 10,656,789	\$ 9,470,308	\$ 262
Indirect Impact	4,678,535	2,572,224	1,702,013	56
Induced Impact	8,230,711	4,821,119	2,581,039	94
Total Impact	33,406,746	18,050,132	13,753,361	412
Type 2 Multiplier (D/A)	1.63	1.69	1.45	1.57
State and Local Tax Impact:	3,819,281			
Economic Impact per \$1 net tax loss:	7.13			

	IMPACTS FROM ONE YEAR'S OPERATION			
	Total Output	Economic Indicators		
		Value Added	Income	Employment
Direct Impact	\$ 1,011,435	\$ 535,709	\$ 366,063	\$ 12
Indirect Impact	253,805	141,620	95,309	3
Induced Impact	332,906	194,925	104,067	4
Total Impact	1,598,146	872,252	565,438	19
Type 2 Multiplier (D/A)	1.58	1.63	1.54	1.59
State and Local Tax Impact:	184,840			

Table A4:
Direct, Indirect and Induced Impacts - Rural Area

	IMPACTS FROM CONSTRUCTION			
	Total Output	Economic Indicators		
		Value Added	Income	Employment
Direct Impact	\$ 15,432,703	\$ 7,262,482	\$ 5,951,011	\$ 213
Indirect Impact	3,108,885	1,623,421	1,049,439	40
Induced Impact	3,784,565	2,213,930	1,096,511	49
Total Impact	22,326,153	11,099,833	8,096,961	302
Type 2 Multiplier (D/A)	1.45	1.53	1.36	1.42
State and Local Tax Impact:	2,202,510			
Economic Impact per \$1 net tax loss:	4.84			

	IMPACTS FROM ONE YEAR'S OPERATION			
	Total Output	Economic Indicators		
		Value Added	Income	Employment
Direct Impact	\$ 927,794	\$ 477,478	\$ 314,014	\$ 11
Indirect Impact	193,142	100,429	66,668	3
Induced Impact	200,359	117,189	58,546	3
Total Impact	1,321,295	695,097	439,228	16
Type 2 Multiplier (D/A)	1.42	1.46	1.40	1.49
State and Local Tax Impact:	138,388			

Appendix B

B1: Statewide Projections of Economic Impacts of the LIHTC Program from 2000 through 2005

Tax-Exempt Bonds Coupled with 4% Credits Only

	Kansas City	St. Louis	Other Metro	Rural	Total
Construction					
Output	\$ 1,401,945,696	\$ 1,277,074,787	\$ 119,347,898	\$ 48,812,889	\$ 2,847,181,270
Value Added	\$ 752,637,732	\$ 773,466,618	\$ 67,192,963	\$ 24,498,992	\$ 1,617,796,305
Taxes	\$ 76,431,962	\$ 51,083,637	\$ 4,499,043	\$ 1,615,957	\$ 133,630,599
Fees	\$ 4,114,273	\$ 3,065,974	\$ 452,733	\$ 291,098	\$ 7,924,078
Employment (Jobs)	14,265	13,718	1,611	673	30,267
Employment (FTEs)	12,841	12,677	1,537	648	27,703
Annual Operations					
Output	\$ 33,720,761	\$ 68,994,193	\$ 4,300,466	\$ 2,731,414	\$ 109,746,834
Value Added	\$ 20,003,064	\$ 38,896,236	\$ 2,347,094	\$ 1,436,923	\$ 62,683,317
Taxes	\$ 1,510,004	\$ 3,141,364	\$ 181,265	\$ 107,851	\$ 4,940,484
Employment (Jobs)	319	681	50	34	1,084
Employment (FTEs)	294	599	46	31	970

Appendix C

MISSOURI HOUSING DEVELOPMENT COMMISSION LOW-INCOME HOUSING TAX CREDIT EVALUATION FACTORS

(From the 2007 QUALIFIED ALLOCATION PLAN approved and adopted by the Missouri Housing Development Commission Board of Commissioners on August 18, 2006)

All applications submitted will be evaluated by MHDC staff using the following federal preferences and selection criteria:

1. Federal Preferences

Section 42(m)(1)(B)(ii) of the Code requires that the following be given preference when allocating the housing credit ceiling:

- a. Projects serving the lowest income tenants.
- b. Projects obligated to serve qualified tenants for the longest periods.
- c. Projects which are located in qualified census tracts (as defined by the HUD) and the development of which contributes to a concerted community revitalization plan.

2. Selection Criteria

a. Project Location

1. The site selected for the Project is crucial to the overall success of the development. Effort should be made to locate sites that are convenient to services and in neighborhoods that include a socioeconomic mix of households.
2. Is the project located in a qualified census tract that qualifies for the 130% basis adjustment?
3. Is it located in a low-income county, defined as a county whose median income is below 80% (HUD definition of low-income) of state's non-metropolitan area median income?
4. If the development is located in a qualified census tract, does the development contribute to a concerted community revitalization plan?
5. Is the project in a community demonstrating new employment opportunities and a corresponding need for additional housing?
6. Is the project part of the State's Downtown Revitalization plan?

b. Housing Needs Characteristics

1. Does the market study indicate a need for the specific housing type that is proposed?
2. Does this need correspond to the needs stated in the State's Consolidated Plan, or the needs identified by local officials?
3. Are the unit sizes, unit mix and amenities suitable for the tenant population identified in the market study?

c. Project Characteristics

1. Is the size of the development appropriate for the need and demand in the community?
2. Are the unit sizes and mix of units appropriate for the community and the site?
3. Will the proposed development preserve existing affordable housing stock or historic buildings?
4. Is the project intended for eventual tenant ownership?
5. Does proposed development rehabilitate housing that is a part of a community revitalization plan?
6. Is the project part of the State's Downtown Revitalization plan?

- d. Sponsor Characteristics
 1. Has the applicant demonstrated the ability to proceed in an expeditious manner?
 2. Does the sponsor have previous favorable experience in developing affordable housing and a proven record with MHDC and/or other housing finance agencies ("HFA")? (Applicant must include a letter authorizing other HFAs to release information regarding their experience with the applicant.)
 3. Has the applicant demonstrated the experience and success of the proposed managing agent? This includes an excellent compliance record with MHDC and/or other HFAs. (Applicant must include letter authorizing other HFAs to release information regarding their experience with the managing agent.)
 - e. Tenant Populations with Special Housing Needs
 1. Will the proposed development provide units for tenants with special needs such as:
 - a. Elderly persons, as defined by Section 42?
 - b. Persons with a physical disability?
 - c. Persons with a developmental disability?
 - d. Households that are very low-income (below 50% of area median income)?
 - e. Single parent families (especially parents with two or more children)?
 - f. Homeless?
 - f. Public Housing Waiting Lists
 1. Will the development provide units for persons on waiting lists for subsidized housing? Is this verified by the local PHA?
 2. Does the proposal leverage funds from Public Housing sources, such as Hope VI?
 3. Will the units be made available to persons with Section 8 Housing Choice Vouchers?
 - g. Tenant Populations of Individuals with Children
 - h. Projects Intended for eventual tenant ownership
3. **Other -**
- a. Special Identified Needs Within the State
 1. Preservation of existing affordable housing.
 2. Affordable housing for low-income single-parent households.
 3. Affordable housing for large low-income households.
 4. Affordable housing for elderly low-income households.
 5. Affordable housing for homeless persons and families.
 6. Affordable housing for persons with a physical disability.
 - b. Local Government Support
 1. Does the applicant have local government support for the proposed housing evidenced by a letter of support from the most senior elected official of the jurisdiction in which the development is located?
 2. Does the applicant have the support of local housing agencies, including the local housing authority, or service providers that are familiar with the tenants who will reside in the development?
 3. Has the applicant shown that the development is part of a larger neighborhood revitalization plan that has been in place for not less than six months prior to the approved date of the allocation plan?
 4. Does the development have a financial commitment from a federal or local unit of government?

c. Special Support Services

1. Does the development provide self-sufficiency assistance for residents such as job training, computer literacy training and/or training for obtaining a G.E.D?
2. If there is a need, will there be a childcare facility for residents' children?
3. Is there a plan for after school tutoring, study hall and/or computer lab?
4. Is there a plan for other specially designed community space and/or facilities to accommodate supportive services?
5. Are there plans for youth development activities or supportive services for the elderly?
6. Does the proposal address other needs of individuals with children?

d. Proposed Site

1. Significant Location/Site Features.
2. Accessibility (Ingress/Egress) of site.

e. Architectural Features

1. Special features regarding universal design or accessible space.
2. Accessibility of common/public areas.
3. Number of units accessible to and/or adaptable for persons with physical disabilities.
4. Internet accessibility (high-speed connection).

f. Total development cost of proposed development.

g. Proposed rents of project in relation to area median income and market rents.

h. Does proposed development fulfill statewide housing needs?

i. Is the proposed development consistent with the needs and priorities of the local community?

j. Does the proposed development contribute to the overall goals of the Commission?

k. Is the proposed development preserving affordable housing stock?

l. Is the developer of the proposed development familiar with and have experience in the community in which the development will be located?

m. Has the developer's involvement in the community been favorable?

n. Does the developer's proximity to the community and proposed development raise issues about availability and accountability to the local officials?

o. Overall feasibility of proposed development.

p. Home Ownership Opportunity

If the proposal is a single-family development, is there a plan to offer eligibility for home ownership to qualified residents at the end of the compliance period? Does the plan include discounted purchase pricing, counseling and educational opportunities to make home ownership more achievable for low-income households?

q. As the State of Missouri may contribute to the overall feasibility of a property by the issuance of a state housing tax credit and/or MHDC funding, the Commission requests that developers pledge

their best efforts to use local vendors, suppliers, contractors and laborers when available and feasible.

4. Site Evaluation

After review of the accepted applications, MHDC staff will conduct a site visit to determine general site suitability. Sites will be evaluated on the following:

- a.** Marketability.
- b.** 24 CFR 941.201 Site and neighborhood standards.
- c.** Suitability of site regarding slope, noise (*e.g.*, railroad tracks, highways), flood plain or wetland issues.
- d.** Other Environmental issues or concerns.
- e.** Conformance with neighborhood character and land use patterns.
- f.** Proximity to public transportation.
- g.** Proximity to shopping.
- h.** Proximity to schools.
- i.** Proximity to medical services.
- j.** Proximity to parks/playgrounds.

Appendix D

MISSOURI HOUSING DEVELOPMENT COMMISSION

4% TAX CREDIT EVALUATION CRITERIA

(Provided by the Missouri Housing Development Commission Board of Commissioners, 2007)

1. Project Type

Each project will fall into one of the following types:

- Preservation
- Acquisition/Rehab (Non-Preservation)
- Historic Rehab/Adaptive Reuse
- New Construction

Applications will be evaluated by the type of project and how it contributes to fulfilling MHDC's mission. The type of project will also govern the appropriate parameters to apply with respect to the additional criteria below.

2. Community Impact

Applications will be reviewed to determine the impact the development will have on the local and surrounding communities. Impact will be influenced by market conditions, local support, the population being served and a project's ability to act as a catalyst for economic development and/or neighborhood revitalization.

3. Scarce Resource Leverage

Applications that demonstrate the use of scarce state, local, federal and private funding sources will receive extra consideration. Leverage will be determined by the presence and ability of scarce resources to achieve any or all of: greater affordability, increased amenities, tenant services or other evident efficiencies and benefits.

4. Need

Applications will be analyzed to determine the necessity for the project. Need will be determined by the condition of the property, market demand, the availability of housing for the population being served and the project's ability to address the greatest affordable housing needs of the state, region and/or locality.

5. Economics

Each application will be assessed for appropriateness and reasonableness of rents, expenses and construction costs. Evaluating the numbers will mean that development costs, rents, expenses, reserves, etc. will be examined to determine their ability to adequately and efficiently provide affordable housing with long-term viability.

6. Amenities and Services

Applications will be evaluated on the number and quality of amenities and services provided to the residents. Design features and services appropriate to the population being served will be considered for how they will impact the marketability and feasibility of the project.

7. Development Team

The experience and performance of all development team members will be considered when determining the likelihood of a project's success. Additionally, in determining the strength of the development team, the developer, contractor and management company will be evaluated by the numbers and types of projects currently underway and their capacity for undertaking the proposed development.

8. Timing

The timing of due diligence, financing commitments and regulatory approvals will be considered when assessing an applicant's ability to proceed. Consideration will be given to applicants that demonstrate they can proceed in a time-frame consistent with the tax-exempt bond allocation process established by the Department of Economic Development.

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