In these uncertain times*, The Credential* asked leaders in the affordable housing industry to share their insights on the current disruption in the tax credit industry and other updates from Washington, D.C. Potential corporate tax reform has disrupted the LIHTC market, and the administration's proposed funding priorities for HUD in fiscal 2018 programs have sent shockwaves across the country. Three questions on the minds of affordable housing stakeholders include:

1. How is potential tax reform affecting credit pricing and capital flow?

2. Is HUD going to see $6.2 billion in cuts or some compromise for 2018?

3. What are HUD Secretary Ben Carson and the administration's goals for the department?

David Gasson
Executive Director, Housing Advisory Group
Director, Boston Capital

The uncertainty that has settled over the affordable housing industry is a result of the frenetic agenda and environment in Washington, D.C. So much to do, but when – and will any of it get done. Now that the White House is engaged in the tax reform debate, all the pieces are in place for the wheels of reform to engage and try to come to a consensus. The first obstacle is: Can they? And based on their efforts around the first major policy initiative of the Trump Administration, repealing and replacing the Affordable Care Act, prospects are not looking great. As an aside, I will also say there has never been successful partisan tax reform, so keep your eyes on who is engaged in this effort on the Senate side.

But say they do succeed: What are the prospects for affordable housing – and specifically LIHTC, if tax reform gets real legs and the House, Senate and White House coalesce around a tax reform bill? At this time in the debate, I like where the housing credit sits. As I have said, I cannot recall a time when it enjoyed such strong bipartisan support on Capitol Hill. The House Ways and Means Committee has signaled its support on a number of occasions, including a public pronouncement in the *Wall Street Journal* by the committee's spokesperson.

Sen. Orrin Hatch (R-Utah), chairman of the Senate Finance Committee, is the lead co-sponsor of the Affordable Housing Credit Improvement Act, which increases resources, fixes the 4% credit floor and includes a number of other improvements sought for years by the industry. Both this bill and similar legislation in the House have garnered strong bipartisan support.

As for what the housing credit might looking like in a post-tax reform world, the Tax Reform Working Group of the ACTION Campaign has been working with the House Ways and Means and Joint Committee on Taxation staffs on that issue since the election. The foundation of our work is based on three principles:

1) The credit must continue to attract robust investor interest

2) The credit must continue to provide the equity necessary to build quality affordable housing

3) At a minimum, the program should produce the same amount of housing it did before this year's uncertainty set in. This effort is running parallel to our efforts with the expansion bills in the House and Senate, so our hope is we have a strong and more robust Housing Credit post reform.

As for the administration, early indications based on conversations and a meeting between the Tax Reform Working Group and staff of the National Economic Council and Domestic Policy Staff at the White House are promising. The staff was familiar with the housing credit and indicated a desire to work with us, as they see the credit as a tool in the president's toolkit for revitalizing inner cities and continuing to produce affordable housing. Time will tell how this plays out, but at this point we are optimistic.

So, what can we do to insure a positive outcome? The work in Washington continues, but the really vital work takes place in Congressional districts around the country. Having members of Congress visit housing credit properties and seeing what the program is, what it accomplishes and meeting our tenants and hearing their stories is what has led to the strong support for the program on Capitol Hill. As former Ways and Means Chairman Dave Camp told us, "seeing is believing." His colleagues who have visited housing credit properties have become believers, so these efforts around the country are the secret to securing the future of the program.

Emily Cadik
Director, Public Policy
Enterprise Community Partners

Tax reform is more likely to advance in 2017 than in any other year in recent memory, but what shape it might take is still very much in the air.

Two initial proposals have emerged so far: the administration's proposal and the House Republican tax reform "blueprint." Both plans propose eliminating nearly all tax expenditures to significantly lower corporate tax rates, and both are silent as to whether or not the LIHTC or multifamily housing bonds would be among those eliminated. However, there are much larger issues – including the trillion-dollar question of how to pay for these plans – which must still be negotiated before we can expect greater clarity about specific credits. The Senate has not released its own tax reform plan, Sen. Hatch is still hoping to pass tax reform on a bipartisan basis, which means it would look very different from both the House and administration's proposals.

Given these differences, as well as the political pressure to pass tax legislation by the end of the year, it is looking increasingly possible that Congress and the administration will instead opt for cutting taxes in 2017 and taking up the more politically daunting task of true reform at a later date.

While tax reform certainly poses a threat to the housing credit and housing bonds insofar as tax expenditures are eliminated or reduced to lower corporate tax rates, it could also serve as an opportunity to expand and strengthen these programs. In March, Sen. Maria Cantwell (D-Wash.) and Sen. Hatch introduced the Affordable Housing Credit Improvement Act (S. 548), legislation to expand and strengthen the housing credit. Also in March, Rep. Pat Tiberi (R-Ohio) and Ways and Means Committee Ranking Member Richard Neal (D-Mass.) introduced companion legislation to strengthen the housing credit in the House (H.R. 1661). Both bills already have strong bipartisan support, including on the key tax committees, which will help make the case that these proposals should be included in tax reform.

However, even if the housing credit is retained and potentially even enhanced in tax reform, just lowering the corporate tax rate could significantly affect affordable housing production. According to affordable housing accounting firm Novogradac & Company, depending on how tax reform is written, the amount of housing credit equity raised annually could be reduced by as much as 17%, a loss of as much as $2.2 billion in equity and 16,000 affordable homes per year, just by virtue of lowering the rate.

Even the threat of tax reform is already having an impact on the housing credit market as investors consider the potential of lower corporate rates. While there is no legislative solution to this uncertainty in advance of tax reform, state housing agencies, developers, syndicators and others involved in housing credit financing are taking advantage of every tool to keep production as high as possible. Enterprise and our partners are also working with congressional staff involved in developing tax legislation to ensure that not only is the housing credit protected, but that its viability is maintained.

We are also very encouraged by the affordable housing industry's mobilization in light of these threats and opportunities. The Rental Housing ACTION Campaign has grown to more than 2,000 organizations and businesses calling on Congress and the administration to protect, strengthen and expand the housing credit in tax reform. These voices will be critical as we navigate this high-stakes environment.

It was a welcome surprise to many in the industry that Congress passed an omnibus spending bill for the remainder of fiscal 2017 that increased HUD's budget overall, and provided increased or level funding for many key HUD programs like Project Based Rental Assistance, the HOME Investment Partnerships program (HOME) and Community Development Block Grants (CDBG). While it shows that many members of Congress value affordable housing and community development programs, we know that 2018 will be a very tough year.

On May 23, President Trump released his 2018 budget plan which proposes the elimination of HOME, CDBG and Choice Neighborhood programs. The president's 2018 budget also proposes cuts to the Housing Choice Voucher and Project Based Rental Assistance Renewal accounts. Fortunately, Congress appears unlikely to pursue such draconian cuts. But the return of sequestration will still put pressure on the HUD budget unless Congress agrees to lift the budgetary caps, meaning we still may see some significant cuts to critical programs. It is incumbent on affordable housing and community development advocates to ensure that our voices are heard during these negotiations.

We are eager to hear what HUD Secretary Ben Carson learns on his listening tour, what the priorities for his administration will be and what new initiatives he pursues. However, based on his testimony from his confirmation hearing, as well as remarks given to date, some key themes have emerged.

Secretary Carson has signaled his support for the housing credit, Rental Assistance Demonstration and public/private partnerships generally, suggesting that we may see more movement towards this model within HUD, as well as additional advocacy from the administration in budget and tax reform negotiations in support of these types of programs.

We are also pleased that Secretary Carson is urging for the inclusion of affordable housing as part of any infrastructure plan, which could provide additional resources at a time when they are critically needed. The secretary also clearly appreciates the connection between health and housing given his background, and is challenging many in the affordable housing industry to explore this nexus. At the same time, the secretary's comments during his recent listening tour stops in Ohio indicate that further education about the forces driving the affordable housing crisis is needed.

The appointment of Pam Patenaude to serve as deputy secretary is extremely encouraging. Her extensive housing policy experience, and bold and creative thinking, will be a tremendous asset for HUD.

Peter Sargent
Director of Capital Development
Massachusetts Housing Investment Corporation

Post-election in 2016, the LIHTC market substantially paused as investors and syndicators evaluated and calculated the impact of potential tax reform. Wide disparity in tax rates assumed for modeling, e.g. 15%, 20%, 25%, 28% and the still applicable 35%, made it very difficult for sponsors to proceed with executing LOIs and closing deals. Even deals in the closing process suffered withdrawal of investor backing. The first quarter of 2017 saw some stability and renewed activity as investors focused on the 25% & 28% tax rate options, if reform indeed happens at all. Very recently however, with the White House releasing a one-page document indicating 15% as the desired corporate tax rate target, more uncertainty has crept back into the market. It is going to take the better part of 2017 to bring the industry to some common platform.

It is really too early to tell what the proposed HUD budget will look like. However, the industry has taken some early comfort in the recommendation of Pam Patenaude to become deputy secretary. Her extensive background in housing should bring some perspective into play. Secondly, during the current efforts to pass a Continuing Resolution to keep Congress functioning, it appears that the White House has had to back off on early aggressive goals in many areas. One can only hope that this will influence eventual discussions and compromises on HUD-specific concerns, e.g. HOME and CDBG funding, and concerns surrounding cutback to core Section 8 funding. Again, it is going to take the better part of 2017 to bring clarity to many of these matters.

Secretary Carson has specifically referenced the LIHTC in several articles and speeches which is a positive indicator. His policy of seeking out enhanced public/private pursuits of capital for the broad housing industry fits well into how the LIHTC market already functions. But if the administration remains adamant on funding 10% increase in defense spending at the expense of discretionary programs, there may be limited options to protect and preserve existing HUD programs.