

Massachusetts plans to double tax credits for low-income housing projects

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BOSTON - The same stock market crash that deflated retirement accounts and siphoned value out of real estate also walloped government-subsidized housing developments.

That market is coming back, in Massachusetts at least, and starting next year the state will double its funding for low-income housing, in the form of tax credits.

For the first time, the state's contribution of tax credits will exceed the amount of federal credits used within the state – at least by one metric.

“This will put people to work and provide housing,” Rep. Kevin Honan, D-Brighton, said before the increase was passed by [the state Legislature](#) in an October spending bill. “It’s a wonderful thing that Massachusetts is doing here, stepping up to the plate on housing.”

The federal government provides \$14.2 million in federal tax credits in Massachusetts, according to [Novogradac & Company](#), a certified public accountant company. That’s compared to the \$10 million the state has provided in recent years.

As part of the supplemental budget passed in October, the state will increase its tax credits from \$10 million to \$20 million for two years, ending June 30, 2014, meaning that for those two years the state awards will surpass the federal awards.

Without the increase, all of the tax credits would have gone towards state matching funds for only public housing redevelopment efforts in South Boston and Taunton, according to Citizens Housing and Planning Association.

With the increase, according to the association, private investment will increase and an estimated 25 developments, 1,200 housing units and 1,224 jobs are expected to advance. Sean Caron, CHAPA’s director of public policy, said demand outpaces supply for tax credits by a four to one margin and Caron said he expects the developments will advance after a competitive process.

Caron said constituent concerns over rental costs helped generate support for the bill.

“A lot of legislators are really seeing how much rents are rising thin their district and just how tight the rental market is,” he said.

Since 1986, most large affordable housing developments throughout the country have been funded by banks and other major companies seeking federal tax breaks. In 1999, the state launched its own tax credit program.

“Before ‘86, really all of the federal affordable housing programs were classic, government programs where the government gave grants or subsidized loans directly to developers,” said Mark Curtiss, managing director of the Massachusetts Housing Partnership. The funding change 25 years ago, “imposed a private market discipline” on a program that had previously lacked oversight, Curtiss said.

The way the program works is developers compete for tax credits, and once they have those credits the developers seek investment from large corporations, which stand to gain those tax breaks by investing in the housing projects, Curtiss said.

Government inspectors follow up to see that the housing is built on time and that the units are going to qualified recipients, Curtiss said. Those tax credits are on the hook for 15 years, and they can be taken away if the project doesn’t meet standards, he said.

“They are in it for the 15 years that they have to be in it, and then they want to get out of it,” Curtiss said, typically transferring the property to the affordable housing developer that the company partnered with.

Tax credits are the largest resource for developing affordable housing in Massachusetts, but because of their reliance on private investment they are subject to market forces.

“That market was devastated in 2008 after the Lehman collapse,” said Curtiss. “There was nobody to buy those tax credits.”

A total of 31 projects in Massachusetts that had received the tax credits lost their investors and lay fallow until federal stimulus incentives revived the market, Curtiss said.

Before the 2008 crash, investors such as Bank of America and TD Bank would pay 80 or 90 percent of a tax credit’s value. After the crash, those tax credits were only fetching about 60 or 70 percent of their value, Curtiss said. When the prices dropped, other investors such as Google, Verizon and Liberty Mutual Insurance started investing in affordable housing, collecting the discounted tax credits, Curtiss said.

While tax credits are at the mercy of the market, they are less vulnerable to the whims of politics than grants and other means of government funding. Tax credits are deferred revenue not appropriations, meaning the dollars never make it into the state treasury.

In 1999, when Paul Cellucci was governor, the state replicated the federal government's low-income housing tax credit program, though at a lower rate. The state awards tax credits that have a five-year term while the federal tax credits last 10 years.

The market for those tax credits has picked back up, so investors are paying around 85 percent of what the credits are worth in tax savings, Curtiss said.

Even with more valuable tax credits available, competition among developers should be fierce, Curtiss said.

“The strongest, most public-oriented projects are usually the ones that get funded... It's so competitive that it will very often take a developer two or three funding rounds,” Curtiss said. “It's really a reflection of how strong the needs are.”