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OKLAHOMA COALITION FOR AFFORDABLE HOUSING

Oklahoma's Affordable Housing Act Tax Credit- Economic Impact 2020

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Economic Impact 2020

Prepared by

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Research and Economic Analysis Division

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Overview

Background on Affordable Housing Credit

On June 3, 2014, Governor Mary Fallin signed SB2128 – the Oklahoma Affordable Housing Act, that provides for the allocation of $4 million per year in nonrefundable state low-income housing tax credits (68-2357.403). The act, administered by the Oklahoma Housing Finance Agency, dictates that credits are used to:

- Raise private equity to finance affordable housing for families and seniors.
- Help in counties with populations of 150,000 or less (***HB1411 removed this criterion effective 11.1.19***).
- Provide affordable rent for low-to-moderate-income Oklahomans, typically those earning 60% or less of the Area Median Income.

The tax credit is claimed annually over a ten-year period, beginning when the buildings are placed in service. Owners and managers of low-income housing tax credit properties must ensure that residents meet eligibility requirements set forth by federal regulations (Internal Revenue Code Section 42). The tax credits (both state and federal) are subject to recapture if any violations of the eligibility restrictions are discovered. If any portion of the federal tax credits are recaptured, this will trigger recapture of the proportionate amount of the state credit.

The Oklahoma Affordable Housing Act is subject to review every five years by a committee of nine members. The Governor, the President Pro Tempore of the Oklahoma State Senate and the Speaker of the Oklahoma House of Representatives are each authorized to appoint three members to the committee.

Need

According to the U.S. Department of Housing and Urban Development, families who pay more than 30% of their income for housing are considered cost burdened and may have difficulty affording basic necessities, including clothing, medical care, transportation, and food. The situation is worse by the COVID19 pandemic that saw large scale job losses, plus an increase in demand and price for starter homes. According to the National Low Income Housing Coalition's 2020 Out of Reach report, the two-bedroom housing wage in Oklahoma is $15.93 per hour; Oklahoma ranks 44th for housing costs. A minimum wage worker must work 88 hours per week to afford a modest two-bedroom apartment.

Effective, affordable housing policy can encourage the development and preservation of safe, secure and affordable housing for Oklahomans. Across Oklahoma, there is a shortage of rental homes that are affordable and available to low-and moderate-income households. Many of these households are severely cost burdened, spending more than half of their income on housing. Severely cost burdened households are more likely to sacrifice other necessities like healthy food and healthcare to pay the rent, and more likely to experience unstable housing situations.

According to the National Low Income Housing Coalition’s 2021 report on Housing in Oklahoma:

- 134,600 or 26% of renter households are extremely low income (ELI).
- $25,750 is the maximum income for a 4-person ELI household.
- $33,132 is the annual income required for a 2 bedroom rental at HUD’s Fair Market Rent.
- 67% of Extremely Low Income (ELI) renter households are severely cost burdened

Understanding the cost burden associated with accessing affordable housing options, the Oklahoma Coalition for Affordable Housing requested and funded this study from the Oklahoma Department of Commerce. The mission of the Coalition is to lead the movement to ensure all residents of the state of Oklahoma flourish in safe, affordable homes and to help communities develop safe and affordable housing options for all residents. The Coalition brings together a strong combination of organizations, finance professionals, service providers, economic development authorities and individual advocates to provide advocacy, education and practical training to foster the production and maintenance of affordable housing throughout the state.

During budget shortfalls and low funding periods, the Oklahoma Affordable Housing Act sometimes finds itself under consideration for termination by the Oklahoma Legislature. Like many of Oklahoma's incentives, this tax credit is performance based. The tax credits cannot be claimed until the buildings are built according to robust guidelines established by the Internal Revenue Service and Oklahoma Housing Finance Agency. The properties are 100% occupied by eligible tenants – typically, two years after credits are allocated by the Oklahoma Finance Agency. This study will focus on the impacts of the construction activities as well as the impacts of managing and maintaining the housing units in Oklahoma.

This analysis does not consider some additional social and economic benefits of the housing produced by the Act, such as:

- The value of reliable, safe and affordable housing for low income families, particularly improved education outcomes for children.
- Reduced Medicare spending from seniors being able to live in non-assisted living senior communities longer.
- Reduction of homelessness and the extensive community resources, such as health care and law enforcement, that can now be spent on less issues involving homeless populations.

The benefits of these secondary effects are significant, sometimes difficult to measure, and should be carefully considered when designing, reforming, or addressing the effectiveness of each program.

Even without those considerations, the construction and renovation of the 3,184 housing units produced between 2015 through 2020 will provide significant contributions to Oklahoma's state and regional economies. The economic impact represents units built between 2015 and 2020, and is representative of those 50 projects completed during that time in 54 locations. The construction and long-term employment impacts will increase as more projects receive funding from the Oklahoma Affordable Housing Act and the amount of incentives will increase along with the increase in eligible investments.

This Economic Impact Report only considers allocations made during 2015-2020 and does not forecast future awards.

Economic Impact Estimates

Methodology and IMPLAN

IMPLAN software was used to model this Housing Tax Credit economic impact analysis. IMPLAN is an input/output model that helps institutions understand the linkages between industries in the local economy and how policy or changes in industry can influence economic activity in the region. Each industry has different spending patterns and engages with different suppliers at the local level; IMPLAN helps to evaluate the overall effect of those individual industries. In the case of Oklahoma's Affordable Housing Act, the construction activities were captured under three main categories and the ongoing activities were modeled by continued employment directly associated with the level of employment it would take to manage and maintain these types of residential units.

This economic impact report focuses on the construction and permanent employment activities associated the construction of 50 development projects across 54 locations in Oklahoma. The report does not include new developments that will occur after the current 50 projects. While focusing on construction and permanent employment, this analysis does not consider additional benefits such as:

- Reducing Medicaid housing costs as seniors are able to age in place at these developments.
- Reducing housing burdens leave families more money to spend on other essentials that are otherwise forgone, such as quality food and childcare.
- Stabilizing housing for low income families means children are able to remain in schools consistently, leading to better outcomes for them.
- Economic and social benefits of reducing homelessness, and more affordable options for veterans, children and other vulnerable populations.
- Revitalizing properties previously abandoned or severely distressed, and community reinvestment in improvements for sewer, flooding, waste management and other infrastructure.
- Increasing the tax base from improved valuations of properties and increase in resident population.

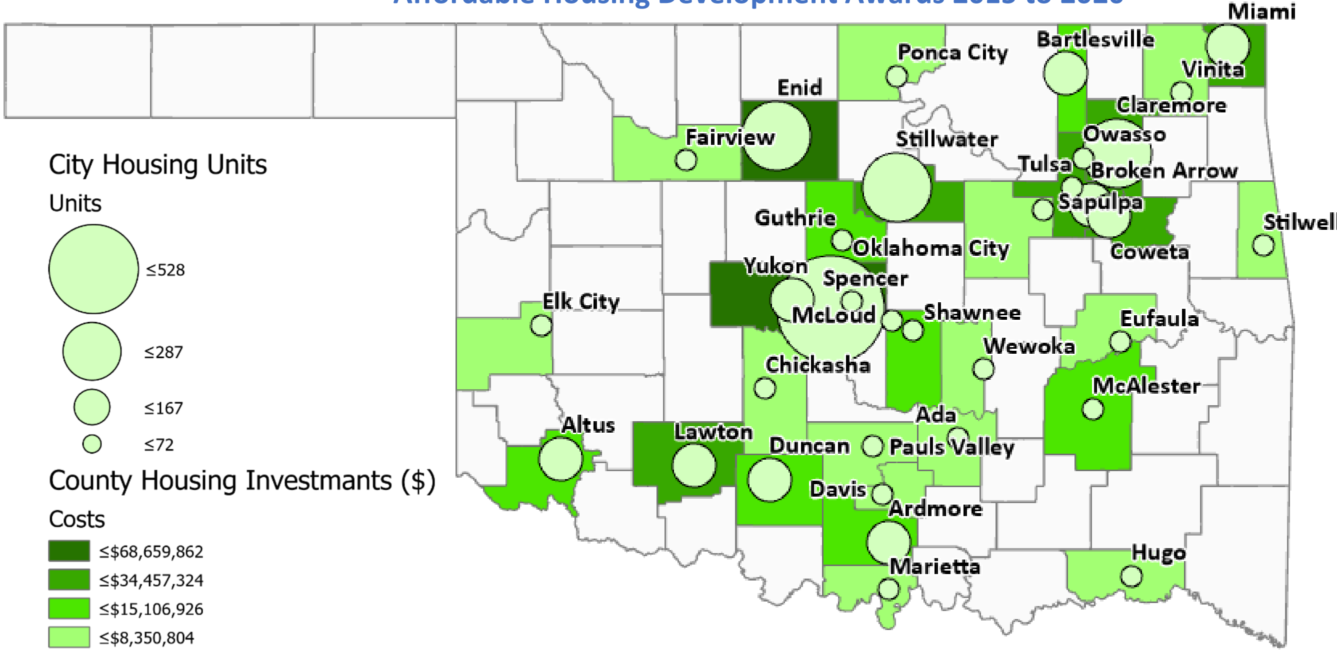
Construction activities are temporary in nature; however, certain job functions such as maintenance, property management or rental income represent activities that continue from year to year until the residential structure is no longer habitable. Employment associated with the regular operation of the 3,184 multi-family and other residential housing units is assumed to maintain the same level of direct employment over time. Due to intense regulatory scrutiny and significant paperwork needed to keep properties in compliance, it is estimated that 157 FTE jobs would be directly employed to manage and upkeep these types of properties. However, as the number of housing units/development projects increase, so should the number of jobs needed to operate the units and maintain compliance. The categories of construction and employment considered in the model are listed below:

- Multi-Family Residential Construction
- Single-Family Residential Construction
- Residential Construction Rehab/Maintenance
- Regular Employment Associated with Multi-Family Units

The construction and maintenance investments were modeled separately from regular employment operations. Between 2015 and 2020, the Oklahoma Affordable Housing Act has been used to provide financing for 50 projects in 54 locations by development companies. These 50 development projects occurred in 34 communities and 30 counties across Oklahoma and created a direct impact of over $479 million in construction activity used to build 3,184 housing units across Oklahoma. The Oklahoma Housing Finance Agency allocated $23,332,125 in state affordable housing tax credits over this six-year period. Both investment and employment will increase along with incentives as more projects are funded by developers using incentives from the Oklahoma Affordable Housing Act.

The map below provides a snapshot of where the developments, spurred by the Oklahoma Affordable Housing Tax Credit, are situated as of 2020. Investments are being made in the city centers of some rural counties, and are used to help revitalize various areas that have been neglected for a long time. Many of these communities also struggle with the attraction of new businesses due to the very limited options available for new housing. These communities also struggle with an aging and obsolete housing stock and find it difficult to support the economics of new market-rate housing.

Affordable Housing Development Awards 2015 to 2020



Compared to 2019, over $104 million in new construction and just under $4 million in housing tax credits were approved in 2021. This map illustrates overall levels of investment and housing units as of 2020.

Economic Impact Summary

The Oklahoma Department of Commerce used IMPLAN software to model this economic analysis. The report focuses on the construction and permanent employment activities associated with the creation of 50 development projects across 50 locations in Oklahoma that received award notification between 2015 and 2020. The report does not include new developments that occur after the current 50 projects.

Employment: Over the years of construction, over 6,200 jobs are impacted by the development of all 3,184 units. If no new projects are approved after 2020, there will be a significant reduction in construction impacts for the following years after installation or maintenance has been completed on the 50 developments in 54 locations.

Labor Income: The estimated 157 jobs employed by developers to manage and maintain the 3,184 units are projected to directly generate over $4.75 million in labor income from payroll and sole proprietors associated with keeping the units in compliance and maintaining the proper paperwork.

Economic Activity (Output) Impact: The Oklahoma Housing Finance Agency allocated $23,332,125 in state affordable housing credits. Housing development companies used the credits to provide financing for 50 developments in 54 locations representing 34 communities and 30 counties across Oklahoma. The developments created a direct impact of over $484 million in construction activity to build 3,184 housing units across Oklahoma and is estimated to create over $1.1 billion in economic activity between 2017 and 2022.

There are significant social impacts (such as the value of reliable affordable housing options, improved health outcomes and the opportunity to reduce homelessness) not included in this study that should also be considered when designing, reforming or addressing the effectiveness of the program.

The construction and renovation of the 3,184 housing units from the 50 development projects awarded between 2015 through 2020, will provide significant contributions to Oklahoma's state and regional economies. As the Oklahoma Affordable Housing Act finances more projects, both investment and employment will increase along with incentives. More importantly, the key result is the provision of housing options that are affordable to households with lower incomes.

Employment

Employment impacts are not only limited to people directly employed at the multi-family units, but also include impacts from the indirect and induced employment. The indirect impacts would include goods and services consumed by the unit operators or construction companies, while induced impacts would include household consumption from those directly employed to construct or operate the housing units.

Based on responses from development and property management companies, roughly 157 workers would be needed to manage and maintain the 3,184 units that qualify for the federal incentive. As the number of housing units increase, there would be a proportionate increase in employment to maintain compliance and upkeep of the property.

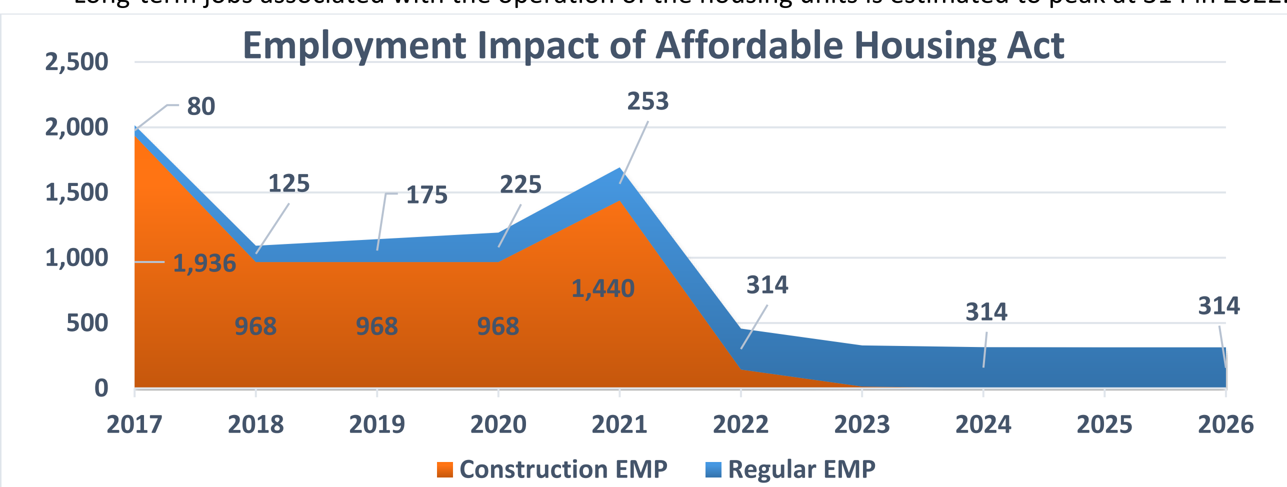
- The 157 jobs associated with the normal operations of those leasing offices would then support an additional 157 jobs through:
  - Induced impacts spending by regular employees in the local market; and
  - Indirect impacts from spending by development and leasing companies with local businesses
- The overall impact of normal operations is about 314 jobs.

Total investment in construction or maintenance was estimated to be over $484 million from 2015-2020. Over the years of construction, more than 6,200 jobs are impacted by the construction of all 3,184 units. If no new projects are approved after 2020, there will be a significant reduction in construction impacts for the following years when construction or maintenance have been completed on the 50 projects.

- By 2023, the overall impact of the 50 projects is conservatively estimated to revert to the 314 jobs from the normal operations of the multi-family units.

Direct employment from ongoing operations and the associated construction impacts will increase as more projects are approved. The chart below assumes 3,184 units will be constructed by the end of 2021, which is 650 units more than the 2,534 estimated to be built by 2020. Prior to 2021 the chart also assumes 40% of the 2,534 units were built in 2017 and roughly 60%, 80% and 100% were constructed in 2018, 2019 and 2020, respectively. After construction is completed, new developments will fully ramp up permanent staff to manage the facilities (roughly 2 years after award notification).

- Based on project awards from 2015 to 2020, the cumulative construction jobs impact is estimated to be over 6,200 temporary jobs.
- Long-term jobs associated with the operation of the housing units is estimated to peak at 314 in 2022.



Labor Income

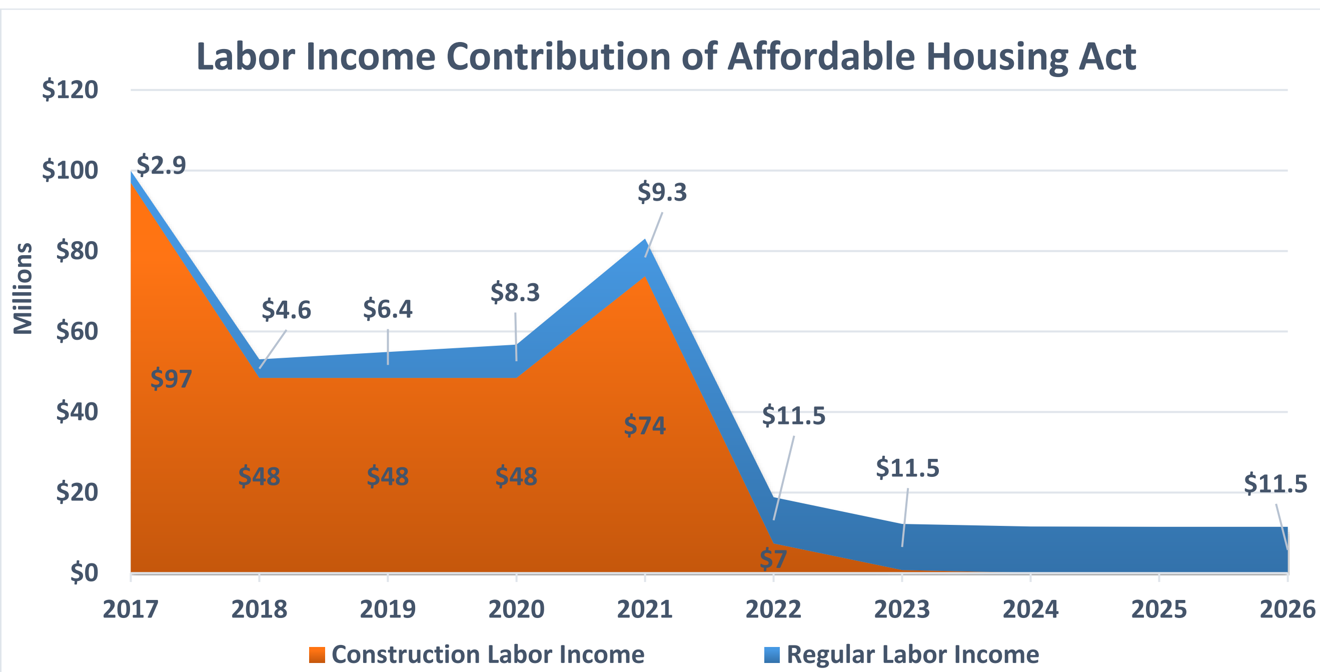
Labor income is the earnings garnered by workers prior to taxes and certain fees; labor income also includes income to sole proprietors that could include contractors. The labor income displayed below is nominal and does not adjust for inflation or the time-value of money.

- The roughly 157 jobs employed by developers to manage and maintain the 3,184 units are estimated to directly generate $4.75 million in labor income from payroll and sole proprietors associated with keeping the units in compliance and maintaining the proper paperwork.

As more projects get approved under the Oklahoma Affordable Housing Act, the direct long-term employment and construction impacts will increase as well.

- Considering the additional induced effects (employee spending) and the indirect effects (employer spending with suppliers), the total impact on labor income from regular operations is $11.5 million.
- When considering the additional labor income from construction activities, the overall labor income contribution from the 50 housing development projects in 54 locations is estimated to be over $100 million dollars during peak construction in 2017.
- When the temporary effects of construction from the 50 projects diminish over time, the overall impact on labor income is estimated to revert to $11.5 million annually from regular operations.

New developments above the 50 projects will yield additional tax credits and additional labor income from both permanent employment and temporary construction activities.



Economic Activity (Output)

Economic output is a measure of the value-added economic activity in the state. This includes the value of intermediary goods along with value-added activities associated with the production of finished goods within the state. As a result of the incentive, 48 of the 54 communities where affordable housing units were built were actual communities outside of Cleveland, Oklahoma and Tulsa Counties. In addition to being great assets for communities, these projects also create demand for goods and services from local businesses.

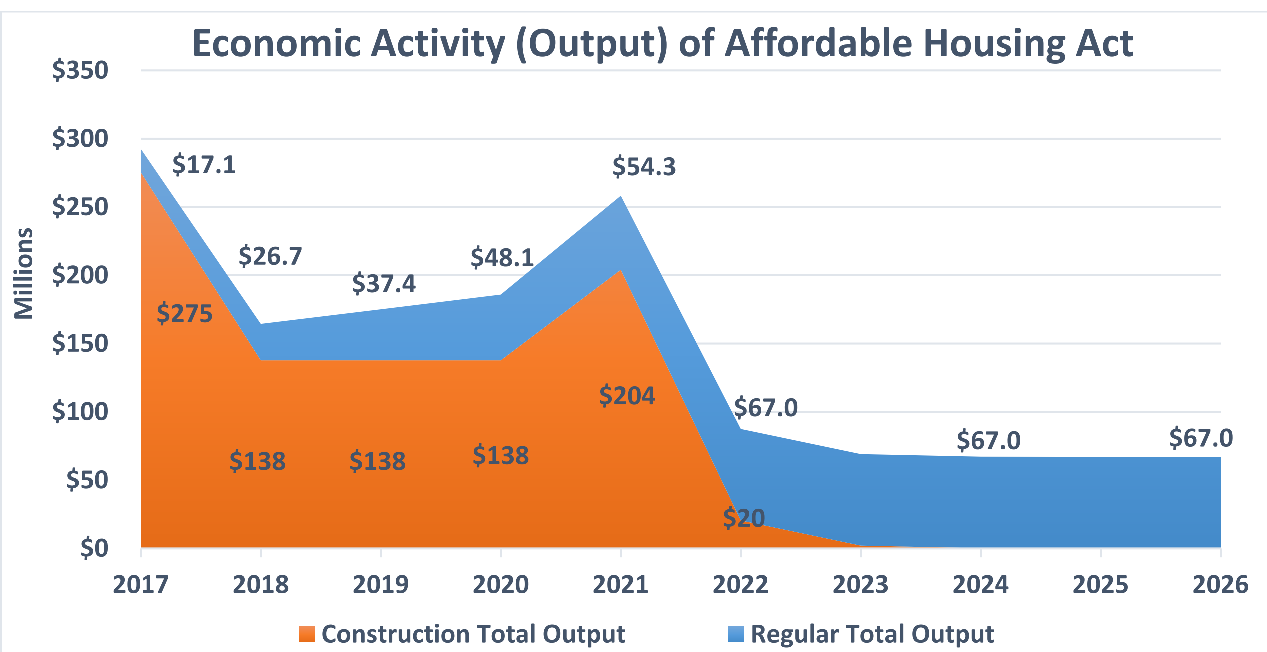
- The 157 direct jobs estimated to operate the newly constructed multi-family units directly generate over $45 million in economic activity statewide.
- When considering the induced effects (employee spending) and indirect effects (local purchases by leasing companies), permanent housing operations contribute over $67 million in economic activity annually.

Furthermore, as the number of units/development projects increase, so will the annual employment needed to manage and maintain those properties. The construction activities from those 50 developments projects in 54 locations are represented in the impacts from 2017 to 2021.

- When considering the temporary construction or maintenance activities from the 50 development projects awarded between 2015 and 2020, the overall economic contribution from developers and leasing companies is over $892 million.

The overall construction or maintenance impact will increase as more housing units are built. Typically, the impact results would correspond with the time period when the actual construction occurs. In this case, roughly $275 million was estimated for 2017 and roughly $138 million except for 2021 that saw an uptick to $203 million in economic activity statewide.

- When permanent employment is added, the overall economic impact exceeds an estimated $1 billion from activities in 2017 through 2021 alone.
- When the temporary effects of construction have subsided, the annual impact is estimated to revert to over $67 million in economic activity annually from the ongoing operation of the housing units.



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