Affordable

Contents

Housing

October 31, 2001

The Honorable Jim Hodges
Governor of South Carolina
Columbia, South Carolina

Dear Governor Hodges:

It is with great pleasure that I, on behalf of the Governor's Task Force on Affordable Housing, submit for your review and consideration our report on affordable housing in South Carolina.

This report represents the concerted efforts of your Task Force during the past six months. Throughout the process, the Task Force involved and heard from many South Carolinians, including representatives from federal, state and local government, nonprofits, private developers, associations, bankers and other interested parties. Resource people from the private sector and the state, especially Wilbur Cave, Director, Division of Constituent Services in your office, and Amy Craps, Administrative Assistant to the Director, are all to be commended for the support they gave this project. The recommendations included in this report reflect many hours of significant discussion and debate about the best ways to achieve the goal of ensuring affordable, safe, quality places to live for as many South Carolinians as possible.

We commit our support to carrying out these recommendations and look forward to seeing them put into action. Much work lies ahead. Therefore, we respectfully request and recommend that the Task Force be allowed to continue our work so that we may review the results of the South Carolina Housing Needs Assessment that is presently underway and make further recommendations to you by summer 2002.

The members of the Task Force applaud your leadership in addressing the issue of affordable housing in the Palmetto State. We believe that this report, even in its interim form, will help create the momentum needed to make the preservation and production of affordable housing a priority in South Carolina. We appreciate the opportunity to serve you and our fellow citizens on this important endeavor and are ready to assist you in implementing the recommendations in this report.

Respectfully submitted,

Don Hinson
Chair
Governor's Task Force on Affordable Housing

Introduction

A single mother in Dillon County is working two jobs to support herself and her four small children. She cannot afford "mainstream" housing, and there is little available to rent in her county. She is living in a dilapidated house for which she pays $350 a month. Although she has made some repairs herself, it is missing glass in windows, the wood floors are black from mildew, the back door does not shut and the inside of the house is visible through the cracks in the outer wall. She spent nine weeks with no running water. She has not yet been able to find a better place to live.

From Housing in South Carolina: A Call to Action, May 15, 2000

Those who wake each morning in the relative comfort of a house or apartment that is structurally sound with running water, indoor facilities, electricity and rents or mortgages that are within their financial means often take housing for granted. But for a growing number of South Carolinians, the basic element of decent housing eludes them. In every community in the state there are families and individuals in need of suitable housing.

Affordable, safe, quality housing is essential to the well being of all South Carolina families. It plays a fundamental role in the economic prosperity of the state and the quality of life for her citizens. Even though housing problems impact every community in the state, both rural and urban, the issue has received little public attention.

Today, due in part to rising construction costs and a shrinking supply of affordable housing, many families and individuals are finding it increasingly difficult to find affordable, safe, quality housing. Fragmented efforts to address the issue exacerbate the problem. There is a lack of effective coordination among those involved in tackling the issue. No one entity is responsible for strategically addressing all affordable housing issues or for developing a strategic plan to help resolve the affordable housing problem in South Carolina.

Governor Jim Hodges understands that affordable, safe, quality housing is fundamental to the health, safety and well being of each citizen in the Palmetto State. He is committed to addressing the problem and to ensuring the availability of affordable housing for all South Carolinians, both renters and homeowners. His resolve to address the housing problem is the principle reason he created the Governor's Task Force on Affordable Housing.

The Task Force began its work on April 5, 2001 with the objective of addressing any issue that serves as an obstacle to affordable housing in South Carolina. The resulting report, "Affordable Housing: An Action Agenda," represents countless hours of study, discussion and spirited debate among Task Force members and housing resource professionals about the best ways to achieve the goal of ensuring an affordable, safe, quality place to live for every South Carolinian. The Task Force's recommendations offer a foundation for tackling many of the housing problems that plague our state, particularly in rural areas and for those with low-incomes and special needs. Task Force members are convinced that with all South Carolinians working together, we can secure more affordable, safe, quality housing for as many of our fellow citizens as possible.

Executive Summary

The Governor's Task Force on Affordable Housing identified three general areas that need to be addressed in order to ease the affordable housing problem in South Carolina:

Coordination, Accountability and Planning:

- Increase the visibility of affordable housing as a significant public issue.
- Improve coordination of federal and state housing programs administered by several agencies.
- Increase accountability for meeting the affordable housing needs of citizens.
- Improve planning capabilities for affordable housing.

Availability:

- Increase, through preservation and production, affordable housing units available to the citizens of South Carolina.
- Maximize and target use of existing resources.

Education and Awareness:

- Strengthen consumer and public education efforts around fair housing and finance issues.
- Educate consumers, providers, community leaders and neighbors about affordable housing issues, the tools available to address housing needs and how these tools may be accessed.

Guiding Principles

State and community action to address the affordable housing needs in South Carolina should be grounded in the principles that:

- ❖ Affordable, safe, quality housing is essential to the well being of families.
- ❖ All South Carolinians should have an affordable, safe, quality place in which to live.
- ❖ Affordable housing plays a fundamental role in the quality of life and economic prosperity of South Carolina's citizens.
- ❖ The preservation and production of quality, affordable housing must be a priority in South Carolina.

Affordable Housing:

An Action Agenda

Recommended Actions

The following recommendations are starting points in addressing the affordable housing needs in South Carolina. ***Please note that the numbers preceding each recommendation are for reference purposes only and do not reflect prioritization by the Task Force***. Further details about these recommendations and the rationale to support them are included in "Detailed Summary of Recommendations" beginning on p. 17 of this report.

COORDINATION, ACCOUNTABILITY & PLANNING

1 ***Create the Palmetto Housing Council as the body to oversee the improvement of housing conditions in South Carolina and appoint a Director for Affordable Housing.***

- Increase the visibility of affordable housing as a significant public issue.
- Improve the coordination of federal, state, local and nonprofit affordable housing programs.
- Increase accountability for addressing affordable housing needs.
- Improve planning capabilities for affordable housing.
- Undertake research into new methods and techniques of providing affordable housing.

2 ***Conduct a periodic statewide needs assessment for affordable housing.***

3 ***Request that the South Carolina General Assembly leadership designate a committee in the Senate and the House to assume responsibility for housing issues and legislation.***

4 ***Create legislation to strengthen consumer protections and their enforcement in response to predatory lending practices.***

- Eliminate "equity stripping."
- Strengthen the definition of what is "unconscionable" (so harmful to the consumer that it shocks the conscience) in the Consumer Protection Code.
- Strengthen other consumer protections.
- Strengthen enforcement of consumer protections.
- Develop models for lending programs to provide alternatives to predatory loans.

AVAILABILITY

5 ***Preserve and improve the quality of existing affordable housing units, especially for underserved populations and in difficult to develop areas.***

- Preserve and leverage existing resources.
- Expand the use of non-traditional housing resources such as foundations, sweat equity and others.
- Advocate efforts to minimize the loss of federally subsidized housing from expiring contracts.
- Amend the Residential Landlord-Tenant Act to establish an escrow account for repairs; include mediation in the process.
- Emphasize the use of state funding for rehabilitating existing housing units.

6 Increase the production of affordable rental housing, especially for underserved populations and in difficult to develop areas.

- Give priority to larger housing projects.
- Avoid overly large housing developments for projects targeting households with very low-incomes or those with other special needs.
- Encourage housing funders to be more flexible in their requirements.
- Promote mixed-income developments in the Low Income Housing Tax Credit Program (Section 42).
- Give priority at the state and local levels to the adaptive reuse of buildings for housing purposes.
- Encourage housing authorities to partner with public, nonprofit and private developers to use Section 8 resources in conjunction with housing projects.
- Encourage nonprofits to take the lead in Low Income Housing Tax Credit (Section 42) projects.
- Create a statewide loan consortium to provide long-term loans for the construction of rental housing.
- Encourage regional homeless coalitions to pursue resources for acquisition, rehabilitation and new construction of rental property to be used for permanent housing for persons who are homeless and have disabilities.
- Ensure that the full array of support services are available for all housing units built for special needs populations.
- Develop affordable, safe, quality housing for migrant workers.

7 Reduce the development costs of producing affordable housing, especially for underserved populations and in difficult to develop areas.

- Establish a task force to identify ways to reduce local housing development costs.
- Encourage local jurisdictions to consider more flexible zoning and land use regulations.
- Encourage local governments to cap, reduce or waive impact, tap and permit fees.
- Leverage existing funding sources such as Community Development Block Grant and United States Department of Agriculture programs to provide and/or improve infrastructure.

8 Provide investment incentives to facilitate and support affordable housing development, especially for underserved populations and in difficult to develop areas.

- Create a state low-income housing tax credit program.
- Create a statewide, uniform system for calculating appraised Taxable Market Value for apartment complexes that are partially financed with Low Income Housing Tax Credits (Section 42).
- Implement set-aside of 10 percent of tax exempt bond cap for multifamily housing.
- Maximize the use of the Housing Trust Fund and other state and federal resources.

9 ***Build the capacity of nonprofits in producing affordable rental housing.***

- Support use of HOME funds for forgivable predevelopment loans for Community Housing Development Organizations (CHDOs).
- Encourage for-profit developers, tax credit investors and syndicators to collaborate with nonprofits to assist with predevelopment costs and to provide resources and services to strengthen projects.
- Encourage state agencies that are developing housing for their clients to provide predevelopment funding for nonprofits supporting production of housing units targeting their clients.
- Promote the use of the South Carolina Community Economic Development Act.

10 ***Increase rental assistance for very and extremely low-income individuals and families and other special needs populations.***

- Develop rental assistance programs by using existing state and federal resources.
- Ask the Governor and S.C. General Assembly to adopt a resolution to endorse and request that the South Carolina congressional delegation address federal level obstacles to affordable housing, specifically those pertaining to the Section 8 Program.

11 ***Promote homeownership opportunities, especially for underserved populations and in difficult to develop areas.***

- Continue use of the Housing Trust Fund for land acquisition for affordable homeownership opportunities.
- Encourage all Housing Authorities in the state to maximize the use of Section 8 vouchers to increase homeownership in South Carolina.
- Use existing federal and state funding sources (e.g. HOME, CDBG, USDA-RDS) to promote homeownership.

EDUCATION & AWARENESS

12 ***Establish the Housing and Community Development Institute, a collaborative partnership charged with training local elected officials, housing providers, grassroots and community leaders in matters pertaining to affordable housing.***

13 ***Empower the S.C. Human Affairs Commission to provide outreach and media campaigns on the rights and responsibilities under the Fair Housing Act, to increase awareness of predatory lending practices and to respond to other identified fair housing education needs.***

14 ***Develop specialized consumer education and/or counseling programs to meet the needs of diverse populations.***

- Prepare a comprehensive list of existing services and provide complete, uniform information to intake agencies.
- Identify populations who require specialized training or counseling.
- Work with key service providers to develop and deliver courses and services that help overcome barriers for underserved populations.
- Identify additional resources for expanding the capacity of existing counseling programs and establishing new ones.

15 ***Promote personal financial education for youth.***

- Develop collaborative partnerships between local school districts, state agencies and the private sector.
- Train teachers who are interested in teaching the subject matter.
- Identify sufficient resources to increase the availability of financial literacy programs.
- Work with the S.C. Department of Education to encourage statewide support of such courses as well as mandatory inclusion of similar training for students in grades K-12 as appropriate.

Recommended for further study:

16 ***Change the tax assessment rate on affordable residential rental property from six to four percent.***

At such time that property taxes are a subject before the South Carolina General Assembly, the Task Force requests that the General Assembly consider treating property taxes on affordable residential rental housing in the same manner as that for owner-occupied primary residential home taxes.

Answering the Call to Action

On May 15, 2000, a Housing Roundtable met in Columbia to discuss issues surrounding affordable housing in South Carolina. The group of more than 60 people included representatives from public agencies, private nonprofits, housing developers, homebuilders and lenders with extensive knowledge and experience in housing. In response to the report submitted by the Roundtable, Governor Jim Hodges created, by Executive Order, the Governor's Task Force on Affordable Housing. Governor Hodges issued this order on April 5, 2001, specifying the purpose:

State of South Carolina, Office of the Governor, EXECUTIVE ORDER No. 2001-09

WHEREAS, the availability of affordable, safe, and quality housing for all citizens is essential to the well being of families and to the economic prosperity of the State of South Carolina; and

WHEREAS, affordable housing plays a fundamental role in the quality of life of South Carolina's citizens, and the State cannot overlook the needs of its citizens; and

WHEREAS, as Governor of the State of South Carolina, I am committed to addressing and ensuring improved development of and access to affordable housing to all citizens, including both renters and homeowners.

NOW, THEREFORE, I do hereby establish the Governor's Task Force on Affordable Housing ("Task Force"). The objective of the Task Force shall be developing a coordinated strategy to meet the affordable housing needs of South Carolinians who are in need, or facing difficulties in obtaining affordable housing. The Task Force shall:

1. *Conduct a comprehensive review of all policy and data issues involved in planning and coordinating housing programs in South Carolina. This review shall analyze the availability and efficacy of existing housing, as well as housing resources and needs. The review shall focus on identifying affected populations, improving the flow of federal and local resources, targeting resources to meet the most critical needs, and removing barriers that impede opportunities for community inclusion.*

2. *Review the needs of any population with severe difficulty accessing affordable housing through the private housing market and for whom home ownership is not an affordable option. This review also shall focus on the affordable rental housing shortage, and on housing needs of vulnerable populations, including the elderly, homeless or individuals with mental or physical disabilities.*

3. *Analyze the special barriers of accessing affordable housing for those who live in rural communities with inadequate or non-existing infrastructure. The review also shall focus on economic development obstacles and opportunities for affordable housing in rural communities*

4. *Examine issues affecting financing of housing for individuals, developers, both for-profit and nonprofit, and governmental bodies. This examination also shall examine available funding sources and incentives.*

5. *Submit a comprehensive written report of its findings to the Governor no later than October 1, 2001. The report must include specific recommendations on how South Carolina can improve housing by legislative, administrative or agency action.*

6. *The plan shall contain a timeline for implementation.*

7. *All affected agencies and other public entities shall cooperate fully with the Task Force's research, analysis and production of the report.*

8. *The Governor's Office Division of Constituent Services shall provide staff support as necessary to assist the Task Force in carrying out the directives of this Executive Order.*

This Order shall take effect immediately.

Governor Jim Hodges

NOTE: The order was amended to extend the deadline for the interim report to October 31, 2001, and for the final report to June 1, 2002 to allow the Task Force to review the findings of the South Carolina Housing Needs Assessment and to make further recommendations and revisions based on those findings.

Governor Hodges directed the Governor's Task Force on Affordable Housing ("Task Force") to address any issue that serves as an impediment to affordable housing in South Carolina. He appointed representatives with expertise in housing from the public, private, nonprofit and for-profit sectors to ensure development of a feasible plan. With staff from the Division of Constituent Services providing administrative support, the Governor charged the Task Force to assess the status of affordable housing in South Carolina and to make recommendations about how it can be improved.

The Task Force first met on April 5, 2001. During the next five months, the Task Force performed the majority of its work in four subcommittees:

- **Bridging the Gaps**—considered the needs of populations who have the greatest difficulty accessing decent, affordable housing (i.e. the homeless, the elderly, persons with a developmental or physical disability, persons with mental illness, persons who are chemically dependent, persons with HIV/AIDS, migrant and seasonal agricultural workers). The committee addressed ways to narrow the gap between needs and existing resources for affordable housing and support services.
- **Financing Issues**—examined issues affecting financing for housing, for individuals as well as for developers and governmental bodies, and identified effective ways to expand the ability to produce as well as to purchase, improve or rent affordable housing.

- **Policy and Data Coordination**—addressed the need to improve coordination of housing programs and enhance accountability, visibility and planning for affordable housing in South Carolina.
- **Rural Issues—**examined the special barriers that impede access to affordable housing for those living in rural communities, and considered solutions.

Task Force members focused their efforts on the affordable housing needs of those individuals and families with very low incomes—those with incomes of 50 percent or less of the median income of their respective communities.

One of the first actions taken by the Task Force was to address the need for additional information and data concerning the status of affordable housing in South Carolina. A statewide needs assessment is presently underway to identify specific affordable housing needs and available resources by economic region. The needs assessment should be completed by June 2002. The Task Force will review the completed study and make additional recommendations to the Governor.

The Committees explored many creative ways to solve housing problems and looked to successful programs in South Carolina and throughout the country. Committee members consulted local, state and regional experts in their fields. One committee conducted a series of focus groups comprised of advocates representing many areas of the state and a wide range of housing expertise in order to give diverse groups a voice in developing the recommendations. Key state and federal housing agencies were consulted, and other states' reports and materials were reviewed. Recommendations in this report are derived from their ideas and the daily experience of Task Force members in addressing affordable housing issues. (References to specific programs reviewed in developing recommendations for this report are included in Appendix 2, pp. 37-39.)

The committees submitted draft reports to the full Task Force in mid-August. An Oversight Committee was appointed to consolidate the recommendations and complete the final report that was presented to the Task Force for its approval.

Themes emerged in three general areas: 1) coordination, accountability and planning, 2) availability and 3) education and awareness:

Coordination, Accountability and Planning:

- Increase the visibility of affordable housing as a significant public issue.
- Improve coordination of federal and state housing programs administered by several agencies.

- Increase accountability for meeting the affordable housing needs of citizens.
- Improve planning capabilities for affordable housing.

Availability:

- Increase, through preservation and production, affordable housing units available to the citizens of South Carolina.
  - Maximize and target use of existing resources.

Education and Awareness:

- Strengthen consumer and public education efforts around fair housing and finance issues.
- Educate consumers, providers, community leaders and neighbors about affordable housing issues, the tools available to address housing needs and how these tools may be accessed.

Task Force members strongly believe that the provision of affordable, safe, quality housing is essential to the well being of all South Carolinians and must be a priority if our state is to prosper. In recognition of the state's recent budget shortfalls, attention was focused on improving the use of existing, primarily federal and state, housing resources. The actions recommended in this report provide a strong foundation for achieving the goal of ensuring affordable housing for as many South Carolinians as possible.

The Affordable Housing Challenge:

Facts and Figures

A police officer and his family work to save money for a downpayment for a house but fail; they barely can afford the rents of apartments available in their community…a grandmother cannot afford to repair or replace her tar paper roof, so she watches helplessly as the rain pours inside her house…a single mother of three travels three hours daily to and from her job because she cannot afford housing within a short commuting distance…a homeless family moves on a weekly basis, bouncing from one relative's home to another and to the streets…a mentally ill man lives solely on Supplemental Social Security (SSI) and can afford only a room at a dilapidated board house…

An affordable housing problem exists in communities across the Palmetto State. Too many people allocate too much of their income for housing. Working families, those with very and extremely low-incomes, special needs populations and residents in rural areas are finding it increasingly difficult to find, keep and afford safe, quality housing. Many South Carolinians are trapped in substandard housing. And the problem is growing.

A number of factors compel us to look at this important issue.

- ***Housing costs continue to rise and incomes are not keeping pace.***

  Increased construction, materials, land and infrastructure costs have inflated the price of producing new housing and rehabilitating and improving existing housing. These added expenses are passed on to the consumer in the form of higher rents and/or mortgage payments. While the cost of housing has continued to rise, income growth has not kept pace. Low wages in South Carolina are affecting not only the very poor, but also middle class professionals who are finding it increasingly difficult to afford higher rents and mortgage payments in their communities.

  Household income directly affects housing affordability and housing choice. Median family incomes range from $50,540 in urban Greenville County to $20,843 in rural Allendale County with 34 percent of the state's census tracts considered low-to-moderate-income.[1] With an average household income of just $8,434 per year, 63 percent of public housing residents have incomes at or below 30 percent of the median income for their area.[2] A household earning $15,000 annually can only afford to pay $375 a month for housing based on the federal standard for affordability,

[1]Richard G. Fritz, Federal Home Loan Bank of Atlanta, *Economic and Housing Conditions in South Carolina* (Housing Roundtable, 15 May 2000, photocopy), 6.
[2] United States Department of Housing and Urban Development, *Multifamily Tenant Characteristic Database*.

which is the use of no more than 30 percent of household income for housing expenses (including rent/mortgage and utilities).[3]

Poverty in rural areas is a particular problem. Rural labor markets traditionally have had higher unemployment rates than urban markets. Rural areas provide fewer job options, with the types of jobs tending to be part-time and minimum wage. Low wages limit both the ability of residents to maintain existing homes as well as their housing choices. Low-population densities in rural areas hinder the development of housing as well as supports such as infrastructure and services (education, child care, public transportation and health care).

Rising development costs markedly impact rural areas, particularly since rents that can be charged in rural, low-growth, high-poverty areas often do not cover development costs. With increasing construction and development costs, acceptable profit margins are reduced and, often, affordable housing does not get built. For example, the construction of identical 60-unit multifamily projects in the more urban Pickens County and rural Lee County (using equal amounts of federal tax credits and HOME funds) would result in a net loss for the developer in Lee County. The project in Lee County would require nearly $200,000 more to cover development costs, and the developer would neither have covered his overhead costs nor realized a profit.[4]

The greatest housing challenge in South Carolina is to secure affordable, safe, quality housing for families and individuals with very low-incomes (50 percent or less of the median incomes of their respective communities) and extremely low-incomes (30 percent or less of the median income of their respective communities.) Affordable rental housing is the primary answer for these households.

Yet renters are finding it increasingly difficult to find and sustain safe, quality, affordable housing. Forty-one percent of renters in South Carolina are unable to afford the fair market rent for a two-bedroom apartment or house.[5] Renters are finding that they must devote more and more of their incomes to housing. Nineteen percent of low-income renters spend more than 50 percent

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[3] South Carolina Department of Commerce, Division of Community Grant Programs, *Consolidated Plan for Housing and Community Development, Program Years 2001-2005,* (14 February 2001), II-27.

[4] NOTE: If identical 60-unit multi-family apartment communities were constructed in Pickens County and Lee County using Low Income Housing Tax Credits (LIHTC) that produced $2,658,614 in LIHTC equity and a 30 year HOME loan for $400,000 at two-percent interest, the rents allowed in Pickens County (based on the median income of $48,700) would support a permanent first mortgage of $1,590,000. This would cover development costs and most of the developers overhead and profit. However, in Lee County, rents (based on the median income of $29,100) would produce a permanent first mortgage of $960,000. This reduced loan amount would require the developer to defer all profit and overhead and contribute an additional $189,091 in cash to cover development costs. (Comparison information provided by David Douglas, Douglas Company, Inc., Aynor, S.C.)

[5] National Low Income Housing Coalition, *Out of Reach 2001: America's Growing Wage-Rent Disparity* (September 2001).

of their income on rent and utilities while 42 percent spend in excess of 30 percent of their incomes on housing.[6] According to a recent report by the National Low Income Housing Coalition, "nowhere in the United States is the prevailing minimum wage adequate to afford the Fair Market Rent for a two bedroom home."[7] An individual who is paid at the Federal Minimum Wage ($5.15) would have to work 80 hours per week just to afford a two-bedroom apartment rented at South Carolina's proposed 2002 fair market rent ($493).[8] In the Palmetto State, a household would need to earn at least $10.24 per hour (at 40 hours per week) to earn enough income to afford the Fair Market Rent for a two-bedroom home while spending no more than 30 percent of their income on housing costs.[9]

The lack of affordable housing is affecting an increasing number of families. According to a recent study by the National Housing Conference, approximately 3.7 million working families in the United States are victims of the affordable housing problem. Although these families work the equivalent of a full-time job, they spend more than 50 percent of their incomes on shelter. For example, a police officer cannot afford to purchase a median-priced home in more than three-quarters of the nation's 60 metropolitan areas studied.[10] These findings apply to South Carolina as well. A teacher's or a police officer's salary alone usually cannot support the purchase of a median-priced home in our state.

Efforts are underway to provide new jobs for South Carolinians which will increase personal income, making housing more affordable and improve the ability of many citizens to make housing choices.

- ***The supply of affordable housing units is shrinking***.

For very and extremely low-income individuals and families, finding affordable housing is becoming increasingly difficult. Contracts for housing with Section 8 support are expiring; owners are not renewing their contracts thereby reducing the overall number of affordable housing units. In South Carolina, Section 8 support is expiring for a total of 10,224 units effectively removing these units from the affordable housing market.[11] The lack of heavily subsidized housing makes it increasingly difficult for those with very and extremely low-incomes, special needs populations, the working poor, disabled and elderly to find and afford decent rental

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[6] South Carolina Department of Commerce, *Consolidated Plan*, III-26.
[7] National Low Income Housing Coalition, *Out of Reach 2001*.
[8] Proposed Rules*, Federal Register* 66, no. 90 (9 May 2001), 42.
[9] National Low Income Housing Coalition, *Out of Reach 2001*.
[10] U.S. Newswire report, available from www.nar.realtor; INTERNET.

housing. The federal government has not provided tenant based Section 8 certificates at the rate needed to meet the dramatically increasing demand.

High costs and a lack of financial incentives dissuade many private developers and nonprofits from building new units. Zoning laws in many communities restrict production of affordable housing. In addition, many residents do not want affordable housing units "infiltrating" their neighborhoods.

Availability of affordable housing in rural areas is often more precarious. Frequently, rural communities are plagued with higher poverty levels than urban areas, and thus need a disproportionately greater supply of affordable housing units. However, existing housing stock is deteriorating forcing many rural residents to live in substandard conditions. According to South Carolina's "Consolidated Plan for Housing and Community Development," rural counties have "significant numbers of substandard housing."[12] Data indicate that 37.9 percent of all renter households and 21.3 percent of all owner occupied households have an identified housing problem,[13] i.e. they have physical defects such as faulty wiring, the household is overcrowded and/or they pay more than 30 percent of their incomes for housing expenses, including utilities.[14] Many units lack adequate plumbing or plumbing is non-existent, holes are in roofs or units contain peeling lead-based paint. Additionally, nearly 26 percent of owner-occupied housing and 28 percent of renter-occupied housing is over 40 years old.[15] These older homes are more likely to contain asbestos and lead-based paint and are more likely to be substandard because they have not been properly maintained and no longer meet housing standards for safe and quality dwellings.[16] There is also a proliferation of older (pre-HUD inspected) manufactured homes that do not meet housing or building codes and frequently pose unsafe living conditions.

Special needs populations often face the greatest hurdles in finding affordable, safe, quality housing. NIMBY (Not In My Back Yard) issues hamper the efforts to provide affordable housing in general, especially when units are needed for special needs populations. The United States Supreme Court decision in *Olmstead v. L.C.* highlighted the need for more community-based services and programs for persons with disabilities, including those with physical, mental and developmental disabilities. In its ruling in June 1999, the U.S. Supreme Court stated that "Unjustified isolation…is properly regarded as discrimination based on disability. ..[H]istorically,

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[11] 100 Friends of Affordable Housing, *Housing in South Carolina: A Call to Action: A Report to Governor Hodges and the South Carolina General Assembly* (May 15, 2000), 10.
[12] South Carolina Department of Commerce, *Consolidated Plan 2001*, III-29.
[13] Ibid., III-27.
[14] Ibid., III-23.
[15] Ibid., III-28, 29.

society has tended to isolate and segregate individuals with disabilities, and, despite some improvements, such forms of discrimination against individuals with disabilities continue to be a serious and pervasive social problem….”[17] The Governor's Home and Community-Based Services Task Force, charged with responding to the *Olmstead v. L.C.* decision, identified inadequate housing and residential supports as gaps in the current service system and barriers to community integration in its 2001 report.

In addition, the plight of the homeless in South Carolina is deteriorating. At any given time, there are 12,410 homeless individuals in South Carolina.[18] Of the total estimate, 62 percent are individual adult men, women or youth, while 38 percent are adults and children in families.[19] This estimate represents an increase in the incidence of homelessness in the past 10 years. Yet, current efforts to meet the need are insufficient. In South Carolina, some 7,689 beds/units are needed for the homeless; presently, only 2,424 beds/units are available leaving a gap of 5,262 beds/units.[20] One of the primary solutions in addressing homelessness is the availability of affordable housing.

Issues such as heirs' property also impact the housing industry. Homeowners are often hampered by the fact that they do not have clear title because it is "heirs' property." This makes it difficult to obtain assistance in improving the property or selling it.

- ***Federal Policy changes during the past ten years have had significant negative impact upon the availability of affordable housing:***
  a. Federal funding for new Section 8 vouchers has been reduced and in some years completely stopped. Even though new vouchers were allocated in the 2000 budget, they are inadequate to address the need.
  b. For the past 10 years, federal funds for affordable housing have been shrinking in all categories but two (Section 42 Tax Credits and tax-exempt bonds) and are continuing to do so.
  c. Public Housing Authorities are required to create mixed income communities. This often results in higher income tenants displacing a household with a very low-income which has no other housing options.

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[16] Ibid, 29.
[17] *Olmstead v L.C.,* 527 US 581 (1999).
[18] South Carolina Department of Commerce, *Consolidated Plan*, IV-1.
[19] Ibid.
[20] Ibid., IV-25.

d. Public Housing Authorities are no longer required to replace a demolished unit of housing on a "one for one" basis. This has resulted in a net loss in units. Many new units are being developed into homeownership programs rather than replacement of rental units.
e. The elimination of federal public housing preferences for persons with disabilities has resulted in many individuals not being able to find or afford decent housing.

- ***Families in the South are turning more frequently to high-interest and high-fee sub-prime lenders in order to purchase their homes.***

Often, the most vulnerable and those who can least afford excess costs fall victim to predatory lenders. Predatory lending practices result in homeowners paying much more for the mortgage over the life of the loan than they would have paid through conventional loans. The prevalence of predatory lending is resulting in increasing numbers of foreclosures. For example, during the two-year period from 1998 to 2000, the number of foreclosures in Anderson County alone increased from approximately 175 to over 550—a staggering 300 percent.[21]

While "predatory lending" is not synonymous with "sub-prime lending," experience has shown that most predatory lending takes place within the sub-prime market. A study of Home Mortgage Disclosure Act data reported for 1998 shows that sub-prime lenders have captured a much larger share of the home loan market in South Carolina than in the nation, or even the South, as a whole. Nearly 40 percent of all low-income homebuyers in South Carolina obtained financing from a sub-prime lender, a rate three times the national average.[22] This disparity is even greater for minority borrowers. According to a recent study by the Southern Rural Development Initiative, "in South Carolina, nearly 42 percent of all African-Americans who got a mortgage in 1998 got their loan from a sub-prime lender."[23]

Further, Fannie Mae has estimated that 30 percent of sub-prime housing loans nationally could have been made by banks at market rates. The Southern Rural Development Initiative has computed that a family who took out the average-size sub-prime loan in the South, $52,000, but who qualified for a rate in the prime market, could have afforded a $69,000 mortgage under the better terms in that market. The loss of purchasing power for South Carolinians is tremendous.

Current laws permit many activities by lenders that can result in a predatory loan package, and enforcement of existing protections is difficult. Education of borrowers can provide some

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[21] Anderson County, South Carolina, Master in Equity. Includes manufactured and site-built homes.
[22] Press Release, S.C. Association of Community Development Corporations and the Southern Rural Development Initiative, 16 February 2000.
[23] Ibid.

help, but only to those borrowers who have access to alternatives. Access to the prime market by borrowers is frequently limited, so borrowers feel trapped in the sub-prime market.

- ***Housing directly and indirectly impacts the economy.***

According to the National Association of Homebuilders:

> Residential construction stimulates the economy directly by generating jobs, wages and tax revenues and indirectly as the demand for goods and services created by the construction of new homes 'ripples' through the economy. Although it's difficult to gauge the indirect impact, the direct impact of residential construction on the economy is significant. For example, the construction of 1,000 single-family homes generates 2,448 full-time jobs in construction and construction-related industries, $74.9 million in wages and $42.5 million in combined federal, state and local revenues and fees. The construction of 1,000 multifamily units generates 1,030 full-time jobs in construction and construction-related industries, $33.5 million in wages and $17.8 million in combined federal, state and local tax revenues and fees.[24]

[24] National Association of Homebuilders, www.nahb.com; INTERNET.

Detailed Summary of Recommendations

NOTE: The numbers preceding each recommendation are for reference purposes only and do not reflect prioritization by the Task Force.

Rudy sat huddled in the corner of the dimly lit room and struggled to complete his math homework. A bright boy, the difficulties he encountered were not with completing the assignment, but rather with finding ways to protect his schoolbooks and homework from the drenching rain that poured through the hole in the tar paper roof of his grandmother's house. He and his grandmother could not afford to move to a better house; neither could they find the money for a new roof. Rudy's grandmother called agency after agency, but each time was told, "I'm sorry, we can't help you."*

Actual case from Marion County
**Name changed*

COORDINATION, ACCOUNTABILITY & PLANNING

1 *Create the Palmetto Housing Council as the body to oversee the improvement of housing conditions in South Carolina and appoint a Director for Affordable Housing.*

Created under the Governor's authority, the Palmetto Housing Council ("Council") will be the body charged with developing a comprehensive response to affordable housing needs in South Carolina. The Council should be composed of 11 to 15 members who have a special interest and expertise in affordable housing including representatives from federal, state and local agencies, nonprofit organizations, housing developers and other community representatives.

The Governor should appoint a Director for the Office of Affordable Housing ("Director of Affordable Housing" or "Director") to serve as principal support staff for the Palmetto Housing Council. Additional staff should be hired as needed and as funds are available.

The Council and the Director for Affordable Housing should pursue multiple goals:

- **Increase the visibility of affordable housing as a significant public issue.** In spite of the critical role of safe, quality housing in supporting healthy communities and a strong and attractive economy, affordable housing does not receive sufficient public attention. The state appropriates no funds for affordable housing. The lack of a housing policy hinders the development of adequate resources to meet the state's affordable housing needs.

- **Improve the coordination of federal, state, local and nonprofit affordable housing programs.** Currently in South Carolina, six state agencies administer federal and state housing programs. The distribution of housing funds among several agencies complicates comprehensive planning and resource allocation in meeting statewide affordable housing needs. The Council and Director should coordinate existing resources and programs currently operated by the various state agencies. The existing Interagency Coordinating Council for Housing and Community Development should assist the Palmetto Housing Council in its efforts by continuing to perform its specifically charged duties.

- **Increase accountability for addressing affordable housing needs.** Accountability for affordable housing is scattered throughout state government. No one entity can be held responsible for strategically addressing and resolving all affordable housing issues in the state. The Office of Affordable Housing should be the designated body accountable for addressing affordable housing needs throughout South Carolina.

- **Improve planning capabilities for affordable housing.** The Director should lead the review of the South Carolina Housing Needs Assessment with the purpose of evaluating affordable housing needs and available resources in South Carolina. The Director and the Palmetto Housing Council should develop a statewide comprehensive affordable housing strategic plan and policies designed to direct resources to the greatest identified needs. The Director and Council should ensure that strategic planning takes place periodically.

- **Undertake research into new methods and techniques of providing affordable housing.** The Director for Affordable Housing should work with the Palmetto Housing Council, the proposed Housing and Community Development Institute (see Recommendation 13) and other public and private organizations to discover new and innovative methods and techniques to address affordable housing. Since many public and private organizations throughout the nation are working on the issue, effective programs from other regions of the nation should be reviewed.

The Governor could form the Palmetto Housing Council and appoint a Director for Affordable Housing in less than one year. Since the Council would be staffed by the Governor's Office, there would be no costs incurred solely for its development.

The Task Force recommends exploring the use of administrative funds from existing federal programs and state agencies with a special interest in affordable housing to financially support the Office of Affordable Housing.

2 *Conduct a periodic statewide needs assessment for affordable housing.*

A comprehensive, statewide needs assessment—The South Carolina Housing Needs Assessment—is presently underway. The South Carolina State Housing Finance and Development Authority (SCSHFDA) had planned to conduct a housing needs assessment when the Governor's Task Force on Affordable Housing was formed. Contract specifications were amended to address the specific needs of the Task Force at no additional cost. The South Carolina Housing Needs Assessment is a market study that will support planning for affordable housing in the state by economic region. The SCSHFDA will monitor the progress of the needs assessment, receive the data and share the results with the Task Force and all other interested parties. The Task Force will review the study's findings and make additional recommendations, as needed, to the Governor, Palmetto Housing Council and the Director for Affordable Housing. The results will support the development of an effective strategic plan for affordable housing in South Carolina.

The Palmetto Housing Council and Director for Affordable Housing should ensure that needs assessments take place periodically.

3 *Request that the South Carolina General Assembly leadership designate a Committee in the Senate and the House to assume responsibility for housing issues and legislation.*

Currently, no committees in the South Carolina General Assembly are assigned the specific task of addressing housing issues. The General Assembly can more effectively focus on housing policy issues by assigning responsibility for housing to one designated committee in the Senate and the House. Therefore, the Task Force recommends that the leadership in the Senate and the House create such committees.

4 *Create legislation to strengthen consumer protections and their enforcement in response to predatory lending practices.*

Predatory lending has been described as, "a mismatch between the needs and capacity of the borrower....In essence, the loan does not fit the borrower, either because the borrower's underlying needs for the loan are not being met or the terms of the loan are so disadvantageous to that particular borrower that there is little likelihood that the borrower has the capability to repay the loan."[25] Because of excess fees, charges and interest, borrowers bear a much heavier burden in repaying predatory loans, and still may face the loss of the collateral for the loan. Where the loan is secured by a home, borrowers lose equity in their primary wealth-building asset, or lose the asset altogether. Even for non-home loans, the borrower may lose a car and develop a credit history that inhibits the borrower's ability to purchase a home.

The Task Force recommends creating legislation to strengthen consumer protections and their enforcement that would:

- **Eliminate "equity stripping"** by:
  a. Limiting the fees and points that may be financed in a mortgage.
  b. Limiting the "flipping" (frequent re-financing) of mortgage loans.
  c. Prohibiting financing of credit insurance premiums.
  d. Prohibiting prepayment penalties for loans up to $250,000 (currently $100,000).

- **Strengthen the definition of what is "unconscionable"** (so harmful to the consumer that it shocks the conscience) in the Consumer Protection Code by specifying rates and practices that are *unconscionable*, and by requiring a lender to show that it considered both the ability to repay the loan and whether the consumer will derive a substantial benefit from the transaction.

- **Strengthen other consumer protections** by:
  a. Applying the protections of the Consumer Protection Code to all credit transactions, including first mortgages.
  b. Requiring that disclosures for purchase of a manufactured home be comparable to those required for other home purchases under RESPA,

[25] Daniel S. Ehrenberg, "If the Loan Don't Fit, Don't Take It: Applying the Suitability Doctrine to the Mortgage Industry to Eliminate Predatory Lending," *Journal of Affordable Housing and Community Development* L. 10 (Winter 2001): 117, 119-20.

regardless of whether land is involved.

c. Requiring that all loans involving South Carolina land be governed by South Carolina law.
d. Requiring that payments made by a lender for home improvement contracts be made jointly to the consumer and the contractor.
e. Prohibiting mandatory arbitration clauses in consumer loans.

- **Strengthen enforcement of consumer protections** by:
  a. Increasing funding for the Department of Consumer Affairs and the Board of Financial Institutions (perhaps by increased fees).
  b. Increasing the authority of the Department of Consumer Affairs to investigate complaints and review files without having to show probable cause.

- **Develop models for lending programs to provide alternatives to predatory loans** for those borrowers who cannot qualify for loans in the prime market, for non-home as well as home loans.

It is recommended that legislation amending Title 37, the South Carolina Consumer Protection Code, and any other action needed to strengthen consumer protection laws and their enforcement, be considered during the 2002 legislative session.

No new state dollars would be required to amend existing and/or to create new legislation**.**

AVAILABILITY

5 *Preserve and improve the quality of existing affordable housing units, especially for underserved populations and in difficult to develop areas.*

Much of the existing housing stock, particularly in difficult to develop rural areas, is increasingly problematic, if not impossible, to replace. The housing is older, substandard and often contains lead-based paint and other hazardous conditions. Also, the loss of heavily subsidized housing makes it increasingly difficult for underserved populations, i.e. those with very and extremely low-incomes, special needs populations, the working poor, disabled and elderly, to find and afford decent housing. Therefore, in order to meet the demand for affordable housing in South Carolina, preservation and improvement of existing housing stock must be a top priority for the state.

The Task Force recommends the following strategies be used to <u>preserve</u> and <u>improve</u> existing affordable housing units:

- **Preserve and leverage existing resources.** Existing programs such as CDBG, HOME, Housing Trust Fund, Low Income Housing Energy Assistance Program and USDA Rural Housing Service loan/grant programs should make preservation of existing housing stock a priority, particularly in rural areas. Substandard housing should be rehabilitated to local housing code standards. Set-asides of Section 8 resources could be considered in targeting the needs of rural areas.

- **Expand the use of non-traditional housing resources such as foundations, sweat equity and others**. Rural communities in particular need creative solutions, partnerships and technical assistance to take greater advantage of existing resources. Technical assistance must be provided to help communities identify and qualify for these resources.

- **Advocate efforts to minimize the loss of federally subsidized housing from expiring contracts:**
  a. Anticipate expiring contracts and contact the owners in an effort to preserve the housing at subsidized rents.
  b. Promote sales of rental properties that are anticipated to be lost through opt-outs to nonprofit and for-profit buyers who will maintain the affordability of the property (e.g. consider effective tax policies and changes to capacity funding.)
  c. Educate owners and potential partners on renewal policies and foreclosures.

- **Amend the Residential Landlord-Tenant Act to establish an escrow account for repairs; include mediation in the process**. Currently, South Carolina has a weak residential landlord-tenant law in which tenants have little legal protection when the landlords do not maintain their properties. Establishing an escrow account for repairs through the Residential Landlord-Tenant Act would help reduce the loss of existing housing stock due to poor maintenance.

  It would take approximately two years to amend the Act. Some funding will be needed to administer the escrow accounts for local magistrates.

- **Emphasize the use of state funding for rehabilitating existing housing units**, acknowledging the limitations of using federal funding for this activity on units built before 1978 due to lead-based paint regulations.

Each of these actions could begin immediately. Except where noted, the recommendations are ongoing, long-term measures and should be implemented for 10 years and reviewed annually. The programs cited are already in existence and most are federally funded, therefore no new state dollars are proposed at this time to fund these strategies.

6 *Increase the production of affordable rental housing, especially for underserved populations and in difficult to develop areas.*

There is limited production of new rental units for most income groups, but especially for those in the lowest income groups and in rural areas. New construction is needed to increase the availability of affordable, safe, quality rental units.

The Task Force recommends the following actions be taken to increase the production of affordable rental housing:

- **Give priority to larger housing projects.** Housing developers recognize that predevelopment costs for small developments are comparable to those of large developments. Therefore, if the state is to maximize affordable housing production, housing funders need to give priority to larger affordable housing developments.

- **Avoid overly large housing developments for projects targeting households with very low-incomes or those with other special needs.** Recent history has shown that large affordable rental developments targeting very low-income households (with incomes of 50 percent or less of the median income of their respective communities) have created ghettos often overwhelmed by criminal activity and other social problems.

- **Encourage housing funders to be more flexible in their requirements** which often inhibit special needs housing production, such as the standards for cost per square foot and cost per person served.

- **Promote mixed-income developments in the Low Income Housing Tax Credit Program** (Section 42) when market conditions make it feasible. The financing structure of these developments often allows a certain number of the units to be rented at levels that are affordable for extremely low-income households.

- **Give priority at the state and local levels to the adaptive reuse of buildings for housing purposes.** Some rural areas have found success in utilizing existing structures and adapting them for re-use as affordable housing. Old hotels, schools, commercial buildings and hospitals have been converted into low-income apartments. These programs have successfully combined the development of new rental units with other community development objectives: ridding the area of buildings that are blighted, preserving historic structures and revitalizing downtowns.

- **Encourage housing authorities to partner with public, nonprofit and private developers to use Section 8 resources in conjunction with housing projects** to make them more feasible in rural areas and for very low and extremely low-income families and individuals.

- **Encourage nonprofits to take the lead in Low Income Housing Tax Credit (Section 42) projects** targeting households with incomes 50 percent or less of the median income of their respective communities, collaborating closely with lending institutions and for-profits to create workable projects.

- **Create a statewide loan consortium to provide long-term loans for the construction of affordable rental housing**. The major banking institutions of South Carolina met for two years to develop a statewide loan consortium for long-term loans for rental housing. With a consultant's assistance, a specific proposal was completed detailing staff requirements and procedures for such a loan consortium. The proposal was tabled due to questions regarding alternative approaches to establishing the loan consortium. Long-term fixed rate loans for rental housing continue to be badly needed in South Carolina. The original loan consortium proposal needs reassessment by the banking industry and a loan consortium for South Carolina needs to be instituted.

- **Encourage regional homeless coalitions to pursue United States Department of Housing and Urban Development (HUD) Supportive Housing Program and other available resources** for acquisition, rehabilitation and new construction of rental property to be used for permanent housing specifically for persons who are homeless and have disabilities.

- **Ensure that the full array of support services are available for all housing units built for special needs populations.**

- **Develop affordable, safe, quality housing for migrant workers.**
  a. Identify areas with the greatest migrant housing needs.
  b. Seek non-employer sponsors and nonprofits for development of migrant housing.

c. Utilize existing USDA and other available resources to develop small complexes of twenty units or less incorporated into multifamily housing with non-farm-worker families.
d. Encourage affordable housing providers to provide Spanish-speaking staff or written materials for all applicants.

This recommendation should be carried out by the relevant agencies and should require no new state dollars.

7 *Reduce the development costs of producing affordable housing, especially for underserved populations and in difficult to develop areas.*

The major barriers to developing housing, especially in rural areas, are low incomes, the size of the potential markets, higher development costs and limited profit potential for developers. Local zoning and subdivision regulations and International Building Codes are often designed for urban areas and do not take into consideration unique features in rural areas. This drives up the cost of housing. In addition, the lack of public water, sewer and other infrastructure increases development costs making it difficult to build affordable units. Large lot sizes make infrastructure, roads and drainage cost prohibitive to the development of affordable housing.

The following strategies are recommended to reduce development costs:

- **Establish a task force to identify ways to reduce local housing development costs.** The task force should review zoning, subdivision regulations, building codes, impact fees, permits, and tax assessment issues related to all types of housing, including manufactured and modular housing. The task force should include representatives from the S.C. Municipal and County associations, the proposed Housing and Community Development Institute (see Recommendation 13) as well as local elected officials, planners and building code officials.

- **Encourage local jurisdictions to consider more flexible zoning and land use regulations** that will promote the development of affordable housing in their areas.

- **Encourage local governments to cap, reduce or waive impact, tap and permit fees** to provide a stimulus for affordable housing production.

- **Leverage existing funding sources such as Community Development Block Grant (CDBG) and U.S. Department of Agriculture (USDA) programs to provide and/or improve infrastructure**, particularly in rural areas. Local governments should also locate and inventory in-fill sites for new construction where infrastructure and support services already exist.

This recommendation should be carried out by the relevant agencies within one to two years and should require no new additional state dollars.

8 ***Provide investment incentives to facilitate and support affordable housing, especially for underserved populations and in difficult to develop areas.***

- **Create a state low-income housing tax credit program.** No state low-income tax credit presently exists in South Carolina for housing. In many markets, affordable housing development is not feasible. A state tax credit for housing would provide an additional equity source making affordable housing development more practical, particularly in rural areas. Many additional units of affordable housing could be produced. This new construction would stimulate economic development in the affected markets.

  Presently, 26 other states have state low-income housing tax credit programs in place; the majority of these programs allocate state tax credits along the lines of the federal Low-Income Housing Tax Credit Program (Section 42). (See Appendix 3, pp. 40-49.) Therefore, the Task Force recommends the development of enabling legislation to create a South Carolina state low-income housing tax credit that parallels the federal program.

  Legislation creating a state low-income housing tax credit program needs to be introduced once the state has the revenue to support its implementation. A study currently underway by the Board of Economic Advisors estimates the cost of implementing a state tax credit for housing to be approximately $3.5 million per year. If the tax credit delivery were to be over a five-year period, this amount would grow to approximately $17.5 million by the end of the fifth year.

- **Create a statewide, uniform system for calculating appraised Taxable Market Value for apartment complexes that are partially financed with Low Income Housing Tax Credits (Section 42).** The Low Income Housing Tax Credit Program (Section 42) is the largest federal program funding the production and rehabilitation of affordable housing. It is South Carolina's primary source of governmental financial support for the production and preservation of affordable housing. Section 42 tax credits provide low-income Americans the opportunity to live in safe, quality housing that would normally require a rent payment beyond their means.

  Section 42 was created because often the construction and rehabilitation of apartments costs too much in the private market preventing owners from being able to rent units at rates low-income families can afford. Section 42 tax credits reduce the apartments' up-front debt, thereby lowering debt service or the continuing cost of operations in exchange for legally binding annual rent caps and limits on income levels for eligible tenants. To earn Section 42 tax credits, the apartments must remain both rent capped and available only to occupants whose income is below levels set annually by the federal government. Because the rents charged are required to be lower, the total development cost (replacement cost) of the apartments is higher than its appraised value using the income approach.

  In South Carolina, some Section 42 tax credit assisted apartment complexes are fast approaching economic failure and extinction due to the manner in which some of the state's 46 counties calculate appraised Taxable Market Value (TMV) for property tax purposes. Some counties treat Section 42 tax credits as continuing annual income for the apartments. However, Section 42 tax credits are not annual income. Tax credit value impacts the apartments only during the construction and rent stabilization period, usually the first several years required for construction and reaching rent stabilization.

South Carolina is facing a major slow down in the construction and preservation of Section 42 tax credit funded affordable housing. Once projects are taken out of service due to being over-taxed or other economic problems, the subsequent owner may choose not to operate the complex as affordable housing and is under no legal obligation to do so. This effectively reduces the number of affordable housing units available to low-income households.

Therefore, in order to preserve and maximize the use of the state's major financial resource for the production and improvement of affordable housing—Section 42 tax credits—a statewide, uniform system is needed to ensure that <u>all</u> 46 counties treat apartments that are partially financed with Section 42 tax credits consistently when calculating Taxable Market Value.

Some 26 states nationwide have passed laws or taken other necessary actions to address this problem, including the states of North Carolina and Florida. (See Appendix 2, p. 38.) The state of Georgia provides for a uniform tax appraisal system. Georgia law states "(B.1) The tax assessor shall not consider any income tax credits with respect to real property which are claimed and granted pursuant to either Section 42 of the Internal Revenue Code of 1986, as amended, or Chapter 7 of this title in determining the fair market value of real property."[26]

Finding a solution to the inconsistent treatment of Section 42 tax credits when determining annual property taxes for affected properties is one of South Carolina's most pressing affordable housing issues. The Task Force recognizes that a resolution to this problem is not possible without an adverse impact on local tax receipts in those counties that are not already appropriately addressing this problem. At this time, the Task Force is waiting on financial impact information from the Bureau of Economic Advisors and is considering additional alternatives (other than legislative action) that might resolve the problem.

- **Implement set-aside of 10 percent of tax exempt bond cap for multifamily housing.** Many states set aside a portion of the private activity bond cap for the development of affordable multifamily housing. In 2000, Congress enacted legislation that significantly increased the Private Activity Volume Cap for each state. Half of the increase became effective in 2001; the other half becomes effective in 2002. These increases will give the State Budget and Control Board far greater flexibility in allocating bond cap to agencies qualified to issue tax exempt bonds.

  The Task Force, in conjunction with the South Carolina State Housing Finance and Development Authority, recommends that the Budget and Control Board establish an informal set-aside of 10 percent of the Private Activity Volume Cap to be used by the Authority to develop a pool for qualified multifamily development. This small pool would provide developers an incentive to develop new affordable, multifamily housing or rehabilitate existing affordable housing units, and would allow the use of the four percent tax credit thus maximizing the use of an underused resource. If private developers knew that at least some bond cap was available, they would be more likely to make the upfront investment. Unused

[26] *Official Code of Georgia Annotated*, sec. 48.

bond cap in the set aside could be released at the appropriate point in the year so it could be allocated to meet other needs.

This recommendation could be implemented within six months of its approval and requires no additional state funds.

- **Maximize the use of the Housing Trust Fund and other state and federal resources.** The Housing Trust Fund is available for many eligible activities including the production of affordable housing. However, it is not currently available for use in conjunction with low-income housing tax credits. Developers have urged the S.C. State Housing Finance and Development Authority to allow the use of the Housing Trust Fund in combination with the Housing Tax Credit in order to reach rural areas and very low-income households that otherwise might not be reached.

  The Task Force recommends that upon completion of the South Carolina Housing Needs Assessment in June 2002, the findings should be reviewed and recommendations be developed in regard to how the Housing Trust Fund and other state and federal resources can best be directed.

9 *Build the capacity of nonprofits in producing affordable rental housing.*

Nonprofits are willing to play an increasingly significant role in producing affordable housing in the state, particularly in reaching hard to serve and very and extremely low-income populations. However, these organizations need additional support. For example, providing low interest and forgivable predevelopment loans to nonprofits can enhance their participation in the production of affordable rental housing.

The Task Force recommends that the South Carolina State Housing Finance and Development Authority:

- **Support use of HOME funds for forgivable predevelopment loans for Community Housing Development Organizations (CHDOs)**.

- **Encourage for-profit developers, tax credit investors and syndicators to collaborate with nonprofits to assist with predevelopment costs and to provide resources and services to strengthen projects.**

- **Encourage state agencies that are developing housing for their clients to provide predevelopment funding for nonprofits** supporting production of housing units targeting their clients.

The Task Force recommends that the Department of Commerce:

- **Promote the use of the South Carolina Community Economic Development Act.** With the use of the S.C. Community Economic Development Act, community-based organizations have the opportunity to improve the quality of life in distressed communities through economic-related projects, including housing. (Certification status of Community Development Corporations and Community Development Financial Institutions is granted by the S.C. Department of Commerce.)

This recommendation can be implemented immediately and should be an ongoing effort.

10 *Increase rental assistance for very and extremely low-income individuals and families and other special needs populations*.

The primary housing solution for families and individuals with very low-incomes (those earning 50 percent of the median income of their communities or less) or extremely low-incomes (those earning 30 percent of the median income of their communities or less) is the provision of affordable rental housing. Special needs households often make no more than $500 a month from Social Security and disability payments. Such families can afford to pay no more than $150 for rent and utilities per month. The gap between what an individual or family can afford to pay and the actual cost of their rent makes it clear that families and individuals with incomes of 50 percent or less of the median income of their respective communities need deep rent subsidies in order to afford decent housing.

Provision of more rental housing with deep rental subsidies must be recognized as the primary way to adequately house very low-income and special needs populations. By increasing rental assistance, more families and individuals with very and extremely low-incomes and other special needs populations could afford safe, quality housing.

The following actions can increase rental assistance:

- **Develop rental assistance programs by using existing state and federal resources**.
  a. Encourage the S.C. State Housing Finance and Development Authority, U.S. Department of Agriculture Rural Development Services (USDA-RDS) and other HOME Participating Jurisdictions throughout the state to create programs that provide temporary rental assistance (known as "bridging" programs) for persons waiting for Section 8 certificates or RDS assistance.
  b. Establish funding as available for bridging rental assistance programs for those state agencies that develop housing for their special needs clients; this may also include security and utility deposits.

  c. Encourage the Department of Social Services to utilize Temporary Assistance for Needy Families (TANF) funds for bridging rental assistance for their clients using the Charleston County model.

- **In recognition of federal-level obstacles to increasing rental assistance for South Carolina's neediest citizens, the Task Force recommends that the Governor and S.C. General Assembly adopt a resolution to endorse and to request that the S.C. congressional delegation pursue the following:**
  a. Streamline the Section 8 project-based application process to make it easier for South Carolina's housing authorities to utilize this valuable tool.
  b. Establish a more equitable administrative fee for administration of the Section 8 program to ensure that housing authorities have the ability to give Section 8 applicants more assistance in finding safe, decent and affordable units.
  c. Increase the number of Section 8 vouchers overall in S.C.

Elements of this recommendation could be implemented immediately; others should be implemented as soon as practical with an annual assessment of progress. Since the focus of this recommendation is on maximizing existing resources such as the Section 8 Program, no new state dollars will be required.

11 *Promote homeownership opportunities, especially for underserved populations and in difficult to develop areas.*

A number of strong programs address homeownership issues in South Carolina. However, many of the most needy populations are not being reached, particularly those living in rural areas, those with very and extremely low-incomes and those with special needs. By promoting innovative programs that are currently available, such as Section 8 vouchers, and increasing education and awareness of financial opportunities that support homeownership (see Recommendation 14), many of the state's neediest citizens can realize their dreams of homeownership.

- **Continue use of the Housing Trust Fund for land acquisition for affordable homeownership opportunities.** This action is currently ongoing and should be assessed annually to determine its effectiveness.

- **Encourage all Housing Authorities in the state to maximize the use of Section 8 vouchers to increase homeownership in South Carolina.** The South Carolina State Housing Finance and Development Authority should assist in financing mortgages for public housing authorities in order to encourage them to use Section 8 as homeownership vouchers. It should require an estimated two years to implement this action.

- **Use existing federal and state funding sources (e.g. HOME, CDBG and USDA-RDS) to promote homeownership.**

No new state dollars would be needed to fund this recommendation.

EDUCATION & AWARENESS

12 *Establish the Housing and Community Development Institute, a collaborative partnership charged with training local elected officials, housing providers, grassroots and community leaders in matters pertaining to affordable housing.*

The Task Force recommends that a meeting be convened by the Governor or his designee to determine the feasibility of creating a Housing and Community Development Institute. The Institute is envisioned as a collaborative partnership of universities, nonprofits, community development practitioners, private organizations, S.C. County and Municipal associations and the public sector. Its purpose would be to train local elected officials and housing providers on the principles of housing development, the resources available to address housing needs, project and pro forma development, how to "layer" resources to make projects feasible, how to manage the units developed and explore the role housing plays in the state's economic prosperity. The Institute will also provide training for grassroots and community leaders as a means to ensure local capacity development.

Through the Institute, a task force of local government officials and S.C. County and Municipal associations representatives should be formed to raise awareness of housing issues and to incorporate housing strategies into efforts to build and maintain healthy communities. It should also serve as a resource for "best practices" in the housing field and provide successful models for encouraging partnerships with community-based nonprofit organizations and supportive services. To supplement such training, a "one-stop-shop" technical assistance unit should be developed with representatives from various government and nonprofit agencies and private institutions.

Several universities have been contacted and are receptive regarding the creation of the Housing and Community Development Institute under these guidelines.

Housing officials and leaders in the state could immediately begin to implement this recommendation with full implementation in three years.

The amount of funding needed for the Institute is not known at this time but will be addressed as part of the initial meeting. Preliminary discussions with the universities have indicated an ability to establish this program with minimal costs by drawing on existing resources. It is anticipated that the initial expense primarily would involve curriculum development. Future funding may be obtained from foundation grants or from sponsoring institutions. The Institute is expected to be self-supporting through the collection of tuition or fees from attendees of each class offered. It is hoped that there would be a reduced fee for nonprofits or that they will be able to obtain grants or scholarships. The collaboration of diverse institutions increases the likelihood of attracting non-state dollars to support the Institute.

13 *Empower the S.C. Human Affairs Commission to provide outreach and media campaigns on the rights and responsibilities under the Fair Housing Act, to increase awareness of predatory lending practices and to respond to other identified fair housing education needs.*

Impediments to fair housing choice persist across the state. Removing these barriers and expanding affordable housing opportunities require increased awareness of rights and responsibilities under the Fair Housing Act. Outreach and media campaigns should target communities, consumers, local elected officials, planning commissions and staffs, housing developers and owners, churches and housing industry organizations, including realtors, brokers, and mortgage lenders.

Predatory lending is also a fair housing issue. Consumer education efforts should include access to information on avoiding and mitigating predatory lending situations.

The S.C. Human Affairs Commission should be designated as the state's main provider of and coordinating entity for fair housing outreach. Consumer education efforts on predatory lending should be coordinated with fair housing-related predatory lending outreach efforts. Other organizations may also be involved in providing information on predatory lending.

The Task Force recognizes that an effective fair housing campaign will require additional resources. Some resources are available through competitive federal grant programs and private sources. It is anticipated that additional state funding may be required to meet the proposed budget of $225,00-$270,000/year for the first three years. Legislative approval of staff and funding may be necessary if adequate resources cannot be obtained through competitive applications, collaboration with other state agencies and private funding.

14 *Develop specialized consumer education and/or counseling programs to meet the needs of diverse populations.*

Many South Carolinians in need of obtaining or retaining permanent affordable housing face barriers due to lack of financial literacy, negative credit history or impending eviction/foreclosure resulting from poor financial management and/or financial crisis. Issues may also result from predatory lending or similar circumstances. Credit, housing and/or homeownership counseling is currently available from a number of sources; however, this information is not uniformly provided to individuals in need.

While low- to moderate-income South Carolinians in general would benefit from financial literacy training and consumer credit or housing counseling, some groups require additional efforts to ensure that counseling is available to meet their specific needs. These may include the elderly, the disabled, those for whom English is a second language, very low-income, the homeless, and others, as well as targeted rural areas. In many areas, these individuals are growing in number so the need for specialized consumer education and counseling is rising.

In order to carry out this recommendation, the Task Force proposes the following actions:

- **Prepare a comprehensive list of existing services and provide complete, uniform information to intake agencies.** Print flyers or other materials that are visible and readily available to the public in these intake/referral locations. Compiling a comprehensive list of existing counseling programs and making it available to intake referral resources should be accomplished in one year or less.

- **Identify populations who require specialized training or counseling**. Councils of Government, South Carolina State Housing Finance and Development Authority, other state agencies, statistics from public housing waiting lists and the results of the South Carolina Housing Needs Assessment are potential resources that could be used to identify rural target areas. Identifying target populations is a short-term goal and should be accomplished quickly

- **Work with key service providers to develop and deliver courses and services that help overcome barriers for underserved populations**. For example, the elderly may benefit from learning about different housing ownership or facility options. This training may be most effective when held on site at adult day care centers and in retirement/assisted living facilities. For those not fluent in English, English as a Second Language programs could be expanded to bring in speakers on housing and credit issues in the students' native language.

  Education and counseling efforts should, where possible, be developed and/or delivered in conjunction with agencies and providers who have expertise in serving the target population(s). Many of these organizations are state agencies and statewide networks: S.C. Department of Mental Health, S.C. Department of Disabilities and Special Needs, S.C. Council on Aging, S.C. Department of Social Services, Community Action Agencies, school district special education, adult education, and English as a second language programs, Public Housing Authorities, Clemson Extension Service and others.

- **Identify additional resources for expanding the capacity of existing counseling programs and establish new ones**. Improved systems for referring individuals and identifying specialized populations should result in greater demand for these services, so additional resources will be required. Developing and delivering specialized training/ counseling for identified populations should take from two to five years.

Implementation of this recommendation will involve multiple state agencies/programs, other partnering entities and potential legislation. Therefore, implementation and oversight responsibility should be assigned to the proposed Palmetto Housing Council and Director for Affordable Housing.

The fiscal impact of implementing this recommendation is not fully known. Resources are available from a variety of sources (HUD, Fannie Mae, civic groups, etc.). Efforts to reach target populations will likely require new uses for existing resources and partnerships as well as some additional funding for specialized materials and possibly additional trainers/counselors. All potential existing sources should be requested and utilized to the maximum extent available. After that, some additional state funding might be necessary, especially for state-related agencies like Consumer Affairs, SCSHFDA, Clemson Extension Service, etc. No legislative action will be required unless additional state funds are needed to implement the recommendation.

15 *Promote personal financial education for youth.*

Instruction in financial literacy presently is not offered to the majority of the state's students in grades K-12 or college freshmen. Some individual schools, districts or teachers have incorporated financial management into their lesson plans. However, these efforts have been implemented on a limited basis, with no consistency in availability or curriculum.

Too many young adults face financial difficulties from poor budgeting and credit problems. These factors become barriers to renting and purchasing affordable housing. Students with greater knowledge of personal finances can make better financial decisions. They can avoid credit and budget problems and be better prepared to rent and/or purchase affordable housing as adults.

In response to the need to prepare young adults to make sound financial decisions, the Task Force recommends support for and expansion of existing efforts to teach personal finance to youth:

- **Develop collaborative partnerships between local school districts, state agencies and the private sector**. For example, consumer credit counseling agencies could provide training to teachers or direct instruction to youth. The private sector (Junior Achievement, Bankers Association, etc.) can offer significant resources to support this effort.

- **Train teachers** who are interested in teaching the subject matter.

- **Identify sufficient resources to increase the availability of financial literacy programs**. Resources may be financial and/or new partnerships.

- **Work with the S.C. Department of Education to encourage statewide support of such courses as well as mandatory inclusion of similar training for students in grades K-12 as appropriate.**

Implementation of this recommendation involves non-housing state agencies/ programs, other partnering entities and potential legislation. Accordingly, implementation and oversight responsibility should be assigned to the proposed Palmetto Housing Council and Director of Affordable Housing.

This effort will require funding for materials as well as staff or volunteer instruction. It is anticipated that much of the required resources for this undertaking will be available through collaborative partners. The addition of a mandatory high school subject, inclusion of this topic in another subject area and funding needs not met through partnerships may require legislation.

Support of existing efforts and expansion of these efforts is a short-term to intermediate-term goal. Mandatory fiscal literacy training for all high school students is likely to be an intermediate to long-term goal.

Recommended for further study:

16 *Change the tax assessment rate on affordable residential rental property from six to four percent.*

When the state standardized its assessment rates, it decided that owner-occupied homes would be assessed at four percent of fair market value while all rental property would be assessed at six percent. This results in owners of rental property paying 50 percent more in property taxes. These additional costs are passed on to the renter in the form of higher rents creating a financial burden for renters, especially those households with low-incomes and special needs populations.

At such time that property taxes are a subject before the South Carolina General Assembly, the Task Force requests that the General Assembly consider treating property taxes on affordable residential rental housing in the same manner as owner-occupied primary residential home taxes. Not doing so creates a cost burden for low-income and special needs populations who pay a higher, disproportionate part of their incomes for taxes built into their rental bills.

It is understood that implementation of this recommendation will have a financial impact.

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Appendix 2: Summary of Programs Reviewed by Task Force

Commendable efforts and programs to address affordable housing issues can be found in South Carolina as well as other states. The Task Force has summarized and referenced below many of the programs reviewed by its committees.

Recommendation 1: *Create the Palmetto Housing Council as the body to oversee the improvement of housing conditions in South Carolina and appoint a Director for Affordable Housing*.

The Palmetto Housing Council should build on the existing efforts of the Interagency Coordinating Council for Housing and Community Development and borrow innovative ideas from other states, specifically the Virginia Housing Study Commission.

Recommendation 4: *Create legislation to strengthen consumer protections and their enforcement in response to predatory lending practices.*

It is suggested that the National Consumer Law Center's Model Act be reviewed as an exemplary solution in addressing this issue

Recommendation 5: *Preserve and improve the quality of existing affordable housing units, especially for underserved populations and in difficult to develop areas.*

- Expand the use of non-traditional housing resources
  Existing resources such as the Youthbuild program, which target the training of youth but combine it with the rehabilitation of existing housing for low-income persons, is an example of the type of collaborations that can be built to address housing issues and achieve broader community goals.

- Amend the Residential Landlord-Tenant Act
  A model for amending the state's Residential Landlord-Tenant Act is the Ohio Model.

Recommendation 6: *Increase the production of affordable rental housing, especially for underserved populations and in difficult to develop areas.*

- Give priority at the state and local levels to the adaptive reuse of buildings for housing purposes.
  Examples of this type of rental development have occurred in Union, Chester, York, Great Falls, Clinton, Laurens and Abbeville.

Recommendation 7: *Reduce the development costs of producing affordable housing, especially for underserved populations and in difficult to develop areas.*

There are models within the state of nonprofit organizations, such as Habitat for Humanity, successfully developing housing for low-income families in partnership with local governments. The local government provides assistance in the development costs associated with a subdivision including water, sewer, roads and drainage. Areas that have successfully undertaken such development include Greenwood, Clemson, Landrum, Fort Mill, Georgetown and Georgetown County.

<u>Recommendation 8:</u> Provide investment incentives to facilitate and support affordable housing development, especially for underserved populations and in difficult to develop areas.

- Create a state low-income housing tax credit program.
  Below is a summary of the Georgia state tax credit regulations. A review of the 26 states that currently have tax credit programs in existence revealed that the majority mimic and/or allocate the state tax credits along the lines of Section 42 federal tax credits. Many states advocate a limit for their state tax credit ranging from $250,000 in Arizona to $50,000,000 for California. North Carolina utilizes five tiers based on the county median income and awards the credits disproportionately to the poorer counties. Additionally, North Carolina delivers its state tax credit over a five-year period. (See Appendix 3 for a summary of state low-income housing tax credits by state.)

  Georgia: Code Section 48-7-29.4 b(1): A state tax credit against the tax imposed by this article, to be termed the Georgia housing tax credit, shall be allowed with respect to each qualified Georgia project placed in service after January 1, 2001, in an amount equal to the federal housing tax credit allowed with respect to such qualified Georgia project.

- Create a statewide, uniform system for calculating appraised Taxable Market Value for apartment complexes that are partially financed with Low Income Housing Tax Credits (Section 42).
  Florida: Ch. 97-167, Section 19: For purposes of implementing this program in Florida and in assessing the property for ad valorem taxation under s. 193.011, neither the tax credits, nor financing generated by tax credits, shall be considered as income to the property, and the rental income from rent restricted units in low-income tax credit development shall be recognized by the property appraiser.

  Georgia: Title 48, Code Section 48-5-2 subparagraph B.1: The tax assessor shall not consider any income tax credits with respect to real property which are claimed and granted pursuant to either Section 42 of the Internal Revenue Code of 1986, as amended, or Chapter 7 of this title in determining the fair market value of real property.

  North Carolina: G.S. 105-283, Section 1: Uniform appraisal standards. (a) All property, real and personal, shall as far as practicable be appraised or valued at its true value in money. When used in this Subchapter, the words "true value" shall be interpreted as meaning market value, that is, the price estimated in terms of money at which the property would change hands between a willing and financially able buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of all the uses to which the property is adapted and for which it is capable of being used.
  Section 2: In the case of real property that meets both of the following conditions, the effect of rent restrictions and income restrictions on the true value of the property shall be taken into account for purposes of valuation under this Subchapter:
    (1) The property is subject to restriction established by a government entity or by a governmental contract under section 42 of the Code on the income eligibility of the tenants to whom it is leased or on the rents that may be charged.
    (2) The tenants to whom the property is leased meet the applicable income eligibility restrictions and the rents charged meet any applicable rent restrictions.

<u>Recommendation 10:</u> Increase rental assistance for very and extremely low-income individuals and families and other special needs populations.

The Charleston County DSS Model, Upstate Homeless Coalition's HOME/Anderson-Oconee-Pickens Supportive Housing Program provide examples of programs that address the need to increase rental assistance.

<u>Recommendation 12:</u> Establish the Housing and Community Development Institute, a collaborative partnership charged with training local elected officials, housing providers, grassroots and community leaders in matters pertaining to affordable housing.

The Institute should look to a number of existing training programs and institutes for guidance in developing its program and initiatives. The South Carolina Economic Developer's School was established in coordination with the College of Charleston and the Department of Commerce to train local government officials and economic development practitioners on the principles and methods of economic development. Additionally, Clemson University's Sandhills Center for Community and Economic Development and the Strom Thurmond Institute; the Riley Institute for Public Affairs and Policy Studies at the College of Charleston; University of South Carolina's Institute for Families in Society, Institute for Public Affairs and CAREER Program; the South Carolina Association of Community Development Corporations; South Carolina Chapter of the American Planning Association; and the South Carolina Municipal Association each have regularly scheduled training and study series that focus on methods and strategies for promoting community and economic development as well as leadership development.

Recommendation 14: *Develop specialized consumer education and/or counseling programs to meet the needs of diverse populations.*

State agencies and statewide provider networks (frequently receiving federal/state funding) either currently provide counseling services or serve as points of contact for persons in need of counseling. For example, the S.C. Department of Consumer Affairs assists with consumer issues. Clemson Extension Service, S.C. State Housing Finance and Development Authority and some of the Legal Services and Community Action Agencies provide credit and/or housing counseling services at low cost or no cost. The Governor's Office, Division of Constituent Services, S.C. Department of Social Services offices, S.C. Department of Mental Health, S.C. Department of Disabilities and Special Needs, Community Action Agencies, United Way Helplines, local Public Housing Authorities and planning and community development offices are points of contact for identifying and referring clients to these types of counseling services.

Other potential resources for standardization and capacity building include:

a) American Homeowner Education and Counseling Institute at website http://www.aheci.org.
b) AFSA – American Financial Services Association
c) Myvesta.org
d) Jump Start at http://jumpstart.org
e) National Foundation for Credit Counseling

Recommendation 15: *Promote personal financial education for youth.*

The S.C. Department of Consumer Affairs has an established program for training teachers on instructional methods in this subject area. Participation by teachers and the inclusion of this instruction by schools is voluntary.

Other potential resources:

- Jump Start Coalition and the Financial Literacy 2001 effort may provide helpful information. The general website is http://www.jumpstart.org. The Jump Start website has a listing of the current status of Personal Finance Education Curricula in all 50 states at http://www.jumpstartcoalition.come/upload/ACF44E9.htm.
- The following states have passed or have pending legislative actions related to this topic: Kentucky HCR 82, Massachusetts HB 3820, New Jersey AB 1869, Ohio HB 542, Tennessee HB 2133/SB 2161, Virginia HB 1450, SB 749.

Information on the Florida Council on Economic Education's training materials "Financial Freedom: A guidebook for understanding personal finance" can be accessed from their website: http://www.fcee.org.

Appendix 3: Summary of State Low Income Housing Tax Credits

STATE	YEAR ENACTED/ APPLICATION INFORMATION	CREDIT PERIOD [(1)] & AMOUNT [(2)]	ARE SPECIAL ALLOCATIONS/ BIFURCATION PERMITTED? [(3)]	COMMENTS [(4)]
AR	1997 Effective 11/98 §26-51-1701 *et seq*	10 years; 20% of §42 credit, not to exceed $250, 000 of allocation per year. *Approximate §42 federal credit pool for 2001: $3,827,000*	*Yes* §26-51-1702(a)	Eligibility based on federal criteria*;* AFDA grants extra points in QAP for development in specified low income and rural counties; AR Affordable Neighborhood Housing Tax Credit Program similar to MO AHP credit also available; Proposal to increase amount of State credit rejected; Affordable Housing Trust Fund to be evaluated; Allocation for 2001: $250,000 Pricing range @ 22 to 27 cents
CA	1987 §23610.5 §17058 (*easy 1 page form)*	Accelerated over 4 years; If new, *not* federally subsidized, first 3 years credit equal to 9% of the §42 credit, fourth year equal to 30% minus sum of 3 years; If federally subsidized or an existing project, first 3 years' credits equal to 4% of the §42 credit, fourth year equal to 13 % minus sum of first 3 years; Allocation cannot exceed initial reservation amount and may be reduced if applicable; QAP point system replaced previous lottery 2 years ago;	NO Current law requires same investor purchase in both & §42tax credits and State *Proposal to permit bifurcation unanimously passed the CA legislature last year , but was rejected by the governor*	CA law generally requires 55 year compliance period; State tax credits not available for acquisition costs except for projects qualifying as "at risk" for market rate conversion; §42 credits must be previously or concurrently allocated; *mirrors §42 federal credit w/ exceptions, i.e., preference for difficult to develop areas when not eligible for 130%, but allocated Home funds;* Credits for up to 50% of expenses incurred and certain loans for farm worker housing (§17053.14 and §23608.2); State program has a rate of return limitation; any surplus revenues generated above the limitations (8% of NOI) must be used to reduce the rents. *Allocation for 2001: $50,000,000; demand outpaces supply* *Pricing @ 10-12 cents below §42 federal credit*

STATE	YEAR ENACTED/ APPLICATION INFORMATION	CREDIT PERIOD [1] & AMOUNT [2]	ARE SPECIAL ALLOCATIONS/ BIFURCATION PERMITTED? [3]	COMMENTS [4]
CA		Legislation pending (SB 73) would increase cap to $70,000,000. *Approximate §42 federal credit pool for 2001: $50,807,500*		
CO	Effective 1/1/01 HB 00-1302	Accelerated over 4 Years; Maximum credit is 30% of the qualified basis of the qualified development; $40 million total program funding cap; *Approximate §42 federal credit pool for 2001: $ 7,100,000*	Yes §39-22-2102(3)	Sunsets in 2002; Applicable against any state tax liability; Eligibility based on federal criteria; while state credit can "stand alone" (i.e., §42 credits need not be allocated to same property) in practice, they are combined with §42 properties; Preservation is a primary goal; Local jurisdiction must support (via a public hearing & vote) & commit financially to project; CO Historic Tax Credit under §39-22-514 @ lesser of 20 % of federal Historic Credit or $50,000 per property available. *Allocation: $5,000,000 for each of 4 years beginning in 2001; plus $5,000,000 for each of 4 years beginning in 2002; Pricing: underwritten @ 45 cents*

STATE	YEAR ENACTED/ APPLICATION INFORMATION	CREDIT PERIOD [1] & AMOUNT [2]	ARE SPECIAL ALLOCATIONS/ BIFURCATION PERMITTED? [3]	COMMENTS [4]
GA	Effective 1/1/2001 HB 272 (2000) H.B.460 & 509 (2001)	10 years; Equal to §42 credits (dollar per dollar). *Approximate §42 federal credit pool for 2001: $12,200,000*	Yes	Eligibility based on federal criteria; State credits available to developments with federal LIHTC placed in service in 2001 and thereafter; Each project receiving a §42 LIHTC reservation would also be underwritten for & automatically receive the GA credit (GHTC) in tandem with Federal §42 credit –GHTC would not be optional. Allocation for 2001: $12,200,000;
HI	1994 § 235-110.8	10 years 30 % percent of "applicable percentage" of the qualified basis as determined under §42	No, but under consideration by Dept. of Revenue; legislation H.B. 2432 introduced	Eligibility based on federal criteria; Act 24 permits the insurance companies to claim the tax credit against their state income tax liability on their gross insurance premium coverage.

STATE	YEAR ENACTED/ APPLICATION INFORMATION	CREDIT PERIOD (1) & AMOUNT (2)	ARE SPECIAL ALLOCATIONS/ BIFURCATION PERMITTED? (3)	COMMENTS (4)
IL	2001 SB 1135	One year credit; Project Cap is 50% "of donation"; Il budget of $13,000,000 to be increased by 5% per year through 2006; 24.5% of credits reserved for Chicago; Approximate §42 federal credit pool for 2001: $13,990,000	Unclear IL state tax credit equal to 50% of the value of the "donation"	Sunsets on 12/31/06; Eligibility: 25% of units at 60% of AMI or less; Covers donations (money, securities or other property) to not-for -profits for purchasing, constructing, or rehabilitating affordable housing; Employer assisted housing; General operating support; Technical assistance (i.e. costs incurred by sponsor for project planning, applying for financing, or counseling services to prospective homebuyers; Aggressive one-year credit delivery, with a 5 year carry forward. *Allocation for 2001: $13,000,000;*
MA	2000 *MGL 23B §3* 62 §61 63 §31H	Accelerated over 5 years; First allocations totaling about $2.5 million made June 2001 to three projects receiving Federal credit. Lesser of one-half of the state's federal per capita credit awarded or $4,000,000. *Approximate §42 federal credit pool for 2001: $9,523,750*	Yes Regulations promulgated Nov. 2000 760 CMR 54.00	Program will sunset after 12/31/2005; Eligibility based on federal criteria; DHCD administers both; Will permit a 5-year state credit up to 9% of the eligible basis of a designated project; *Allocation for 2001: $4,000,000;* *Pricing range: proposals submitted @ 40 to 47 cents*

STATE	YEAR ENACTED/ APPLICATION INFORMATION	CREDIT PERIOD [1] & AMOUNT [2]	ARE SPECIAL ALLOCATIONS/ BIFURCATION PERMITTED? [3]	COMMENTS [4]
MO	1990 §135.352	10 years; It matches per capital §42 federal credit. The amount of credit allocated based on need and the cost of the development and the number of qualified low-income units created. *Approximate §42 federal credit pool for 2001: $8,392,800*	Yes §135.352(E)	Program historically assisted by Hancock Amendment mandating rebate of state tax revenues above certain annual living increase limits; Additional programs: MO Affordable Housing Partnership (AHP) Credit which mandates pricing @ 55 cents. MO AHP credit applies to business for contributions to approved nonprofit housing programs, subject to program requirements §32.111, §32.115; *MO Historic Credit under § 253.535-253.559 @ 25%. Various housing & other non housing MO tax credit programs compete for equity investment dollars.* *Allocation cap for 2001: approximately $8.39 million (equal to the federal credit);Pricing range generally@ 25-30 cents.*
NY	2000 (Effective 2001) §2040.15	10 years Similar "applicable percentages" (4%- 9%) as in §42, with some differences. *Approximate §42 federal credit pool for 2001: $ 24,000,000*	No	"Eligible low income building" criteria defined as (i) meeting the §42 federal standards or (ii) at least 40% of the units reserved for households with income not exceeding 90% of area median income – a 40/90 test; generally follows provisions of Federal §42 credits restrictions; Rolling allocation rounds; State credit can "stand alone", i.e., §42 credit need not be allocated to property; *Allocation for 2001: $2 million credit authority and 2002 authority for additional $2 million* *Pricing: underwritten @ 45-50 cents* *Allocation for 2002: $0* .

STATE	YEAR ENACTED/ APPLICATION INFORMATION	CREDIT PERIOD (1) & AMOUNT (2)	ARE SPECIAL ALLOCATIONS/ BIFURCATION PERMITTED? (3)	COMMENTS (4)
NC	2000 §105-129.16B	Accelerated over 5 years; Credit must be taken in equal installments over 5 years beginning in the first taxable year the federal credit is claimed; 75% of 10 year §42 credit if the building is located in a tier 1 or 2 enterprise area (as defined in §105-129.3 NC general statutes); 25% of §42 credit for other tiers. Counties affected by Hurricane Floyd receive the 75% of §42 credit for years 2000-2005. *Approximate §42 federal credit pool for 2001: $12,074,000*	No; Proposed legislation to permit bifurcation have been introduced in both the state senate and house (Senate Bill 181 and House Bill 124)	Building automatically eligible and receives state credits if federal credits have been allocated and if it satisfies specific state requirements; State divided into 5 tiers: Tiers 1 & 2 – 75% of §42 federal credit amount based on 20/50 or a 40/60 percent area median income test; Tiers 3 & 4 – 25% of §42 federal credit amount based on 40/50 percent area median income test; Tier 5 – 25% of §42 federal credit based on 40/35 percent area median income test. NC Historic Tax Credit under §105-129.35 permits 30% of expenditures if federal credit not allowed; otherwise 20% as adjunct to federal credit. *Allocation for 2001: $3 million to maximum of $9 million; Pricing range @ 45 to 50 cents*
UT	1994 §59-7-607 §59-10-129	10 years; Credit is generally one tenth of the maximum §42 credit; Non-Profit or special need properties may warrant higher limits. *Approximate §42 federal credit pool for 2001: 3,400,000*	Yes	State's LIHTC program extended thru 2005; Generally follows §42 eligibility; Flexible tool: targeted to lowest income or special needs. Used to facilitate mixed income properties. Progressive prototype - UHFA can "reach back" and financially assist troubled properties previously awarded §42 credit. UT Historic Tax Credit under §57-7609 at 20 %. *2001 Allocation: 12.5 cents per capita ($279,146)* *Pricing: generally underwritten @ 45 to 50 cents;*

STATE	YEAR ENACTED/ APPLICATION INFORMATION	CREDIT PERIOD [(1)] & AMOUNT [(2)]	ARE SPECIAL ALLOCATIONS/ BIFURCATION PERMITTED? [(3)]	COMMENTS [(4)]
VA	1998 §36-55.63; §58.1-435 Amendment & Reenactment approved March 15, 2001 §58.1-336 Repealed	Accelerated over 5 years; Total annual allocation now capped at $500,000; specific property award based on need as percentage of §42 credit, determined by the Board of Housing & Community Development. *Approximate §42 federal credit pool for 2001: $10,400,000*	No; however, legislation is anticipated this year to permit it. Legislation would be retroactive to January 1, 2001.	*Eligibility based on federal criteria;* *2001 considered transitional year for program.* *VA Historic Credit under §58.1 – 339.2 permits a credit amount of up to 25% of expenditures.* *Allocation: the new legislation will reduce total maximum amount of VA state credit approved and allocated in any calendar year to $500,000 (a substantial reduction from the previous $3,500,000).*

PROGRAMS DISCONTINUED:

FL	1999 §220.1895	Nine percent credit. See "Comments"	No	Initially approved in 1999, remains on books but is currently suspended; no money approved. If in effect would provide a $2.5 million, 5-year state credit program.
LA	1990-1994 (expired in 1993) §47.12	Prior to 1994, credit in first 3 years, whether or not federally subsidized is 9% of §42 credits, in fourth year is equal to 30% minus sum of first 3 years.	No, prior to 1994 N/A post 1993	Project must be located in state enterprise zone to qualify for credits. This statute has not been renewed; no current credits are currently available.

FOOTNOTES/ISSUES:

1. Length of credit period of state tax credit. (Accelerated period generally 4 – 10 years.)
2. Amount of state tax credit allocated to projects.
3. Special Allocation /Bifurcation of credit permits the state tax credit be sold to a different investor than the Federal credit.
4. No states have reciprocity with other states concerning the use of the state low-income housing tax credit. However, Virginia and Maryland have entered into a reciprocity agreement concerning the state historic Credits only, beginning in 2001

STATES CONSIDERING STATE LOW INCOME HOUSING TAX CREDITS

S T A T E	HOUSING TAX CREDITS?
NJ	Considering legislation –SB 1137 Multiple Dwelling State Tax Credit Act. NOTE: DID NOT PASS.
MD	HB 888, SB 184 Legislation introduced in 2001 legislative session. Tabled for summer study and anticipate reintroduction in January 2002 session.
MN	Considering legislation

STATES WITHOUT STATE LOW INCOME HOUSING TAX CREDITS BUT WITH OTHER CONSIDERATIONS

STATE	HOUSING TAX CREDITS?	STATUTE
CT	Rental housing assistance credit if business firms contribute to nonprofit housing programs; may be used against any of the business firm's taxes; subject to program requirements.	§8-395
OR	Thirty percent credit for expenses for construction or rehab of farm worker housing; OR Tax Credits are used to reduce the effective interest rate on the underlying debt by up to 4% and is passed on to further reduce rents. The program serves low-income households earning less than 80% of the area median income.	§315.164
VT	Credit for "charitable" investment in affordable housing	Title 32 §5830c

Resources: State documents; Interviews with State Representatives; Nixon Peabody LLP; LIHC Monthly Report

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Appendix 4: Glossary of Terms

The affordable housing community generally accepts the following definitions of frequently used terms; most are taken directly from the State of South Carolina's "Consolidated Plan for Housing and Community Development" prepared by the South Carolina Department of Commerce in 2001. Definitions not found in the "Consolidated Plan" were provided by Task Force members

Affordable housing: Affordable housing is generally defined as housing where the occupant is paying no more than 30 percent of gross income for gross housing costs, including utility costs.

Community Development Block Grants (CDBG): A program funded by the United States Department of Housing and Urban Development to assist local governments with housing, community and economic development needs. The program is administered by entitlement local governments in metropolitan areas and by the South Carolina Department of Commerce, Division of Community Grant Programs for the non-metropolitan areas of the state.

Community Housing Development Organization (CHDO): A special not-for-profit housing developer that has beeen qualified to do business under the HOME Program.

Cost Burden >30%: The extent to which gross housing costs, including utility costs, exceed 30 percent of gross income, based on data published by the U.S. Census Bureau and HUD.

Cost Burden >50%: The extent to which gross housing costs, including utility costs, exceed 50 percent of gross income, based on data published by the U.S. Census Bureau and HUD.

Emergency Shelter Grants (ESG): A program which assists individuals and families in the transition from homelessness to independent living by promoting housing with supportive services; administered by the State of South Carolina Division of Economic Opportunity, Office of the Governor.

Extremely Low-Income: Households whose incomes do not exceed 30 percent of the median income for the area, as determined by United States Department of Housing and Urban Development.

Fair Market Rent (FMR): The rent, including utilities, which would be required to be paid in order to obtain privately owned, existing, decent, safe and quality rental housing of modest nature with suitable amenities. Separate FMRs are established by United States Department of Housing and Urban Development for dwelling units of varying sizes.

HOME Investment Partnerships (HOME): A program, administered by the South Carolina State Housing Finance and Development Authority, that targets activities and policies aimed at expanding the supply of affordable housing and increasing the number of families with access to affordable housing. HOME is a United States Department of Housing and Urban Development program authorized by Title II of the National Affordable Housing Act.

Housing Opportunities for Persons with AIDS (HOPWA): A program that provides housing services and other assistance to low-income persons with AIDS or related diseases and their families; administered by the STD/HIV Division, South Carolina Department of Health and Environmental Control.

Housing Problems: Households are said to have a "housing problem" if one or more of the following exists: (1) housing unit has physical defects such as the lack of complete plumbing; (2) the household lives in overcrowded conditions; (3) the household expends over 30 percent of gross income on housing costs (a "cost burden"); and (4) the household expends over 50 percent of gross income on housing costs (a "severe cost burden").

Housing Tax Credit Program (LIHTC): This federal initiative makes apartments affordable for working people with below-median incomes. An Internal Revenue Service administered program, housing tax credits are an incentive for owners and developers of multifamily housing. Owners must set aside a percentage of completed units for occupants whose incomes are at least at or below 50 percent of the county median income. The credits, awarded annually and allocated competitively, allow a dollar-for-dollar reduction in federal income tax liability and may be used for up to ten years if the property remains in compliance with occupancy and rent restrictions for 15 years.

Housing Unit: An occupied or vacant house, apartment, group of rooms or a single room (SRO housing) that is intended as separate living quarters. (U.S. Census definition)

Infrastructure: Basic requirements needed to support housing services such as water, sewer, drainage, roads, sidewalks (if required), electricity, telephones, etc.

Lead-Based Paint Hazard: Any condition that causes exposure to lead from lead-contaminated dust, lead-contaminated soil, lead-contaminated paint that is deteriorated or present on accessible surfaces, friction surfaces or impact surfaces that would result in adverse human health effects as established by the appropriate federal agency. (Residential Lead-Based Paint Hazard Reduction Act of 1992 definition)

Low Income Housing Tax Credit: See Housing Tax Credit Program.

Low-Income: Households whose incomes do not exceed 80 percent of the median income for the area, as determined by HUD with adjustments for smaller and larger families, except that HUD may establish income ceilings higher or lower than 80 percent of the median for the area on the basis of HUD's findings that such variations are necessary because of prevailing levels of construction costs or fair market rents, or unusually high or low family incomes. NOTE: HUD income limits are updated annually. (This term corresponds to low- and moderate-income households in the CDBG Program.)

Moderate Income: Households whose incomes are between 81 percent and 95 percent of the median income for the area, as determined by HUD, with adjustments for smaller and larger families, except that HUD may establish income ceilings higher or lower than 95 percent of the median for the area on the basis of HUD's findings that such variations are necessary because of prevailing levels of construction costs or fair market rents, or unusually high or low family incomes. (This definition is different from that for the CDBG Program.)

Other Low-Income: Households whose incomes are between 50 percent and 80 percent of the median income for the area, as determined by HUD, with adjustments for smaller and larger families, except that HUD may establish income ceilings higher or lower than 80 percent of the median for the area on the basis of HUD's findings that such variations are necessary because of prevailing levels of construction costs or fair market rents, or unusually high or low family incomes. (This term corresponds to moderate-income in the CDBG Program.)

Overcrowded: A housing unit containing more than one person per room. (U.S. Census definition)

Owner: A household that owns the housing unit it occupies. (U.S. Census definition)

Project-Based (Rental) Assistance: Rental assistance provided for a project, not for a specific tenant. Tenants receiving project-based rental assistance give up the right to that assistance upon moving from the project.

Rent Burden >30% (Cost Burden): The extent to which gross rents, including utility costs, exceed 30 percent of grow income, based on data published by the U.S. Census Bureau.

Rent Burden >50% (Severe Cost Burden): The extent to which gross rents, including utility costs, exceed 50 percent of gross income, based on data published by the U.S. Census Bureau.

Rental Assistance: Rental assistance payments provided as either project-based rental assistance or tenant-based rental assistance.

Renter: A household that rents the housing unit it occupies, including both units rented for cash and units occupied without cash payment of rent. (U.S. Census definition)

Renter Occupied Unit: Any occupied housing unit that is not owner occupied, including units for cash and those occupied without payment of cash rent.

Section 8: Provides rental assistance to low and very low-income individuals and families (using the CDBG definitions for low and very low-income), including elderly and disabled, who live in the private rental market. Qualified families pay a portion of their income, approximately 30 percent, toward rent and utilities, and public housing authorities pay the remainder directly to the landlord. Tenants' eligibility is reviewed annually by authority staff that also conducts reviews on the dwelling for compliance with housing quality standards. The authority does not own or operate any rental units, but contracts with private property owners. Participation in the Section 8 program is voluntary.

Section 42: See Housing Tax Credit Program.

Service Needs: The particular services identified for special needs populations, which typically may include transportation, personal care, housekeeping, counseling, meals, case management, personal emergency response, and other services to prevent premature institutionalization and assist individuals to continue living independently.

South Carolina State Housing Finance and Development Authority (SCSHFDA): For nearly 30 years, the South Carolina State Housing Finance and Development Authority has been helping low- and low-to-moderate income families, older adults, persons with disabilities, and others who are frequently underserved, find quality, safe and affordable housing. The Authority is able to do this by using its proven financial strength to sell securities to investors nationwide. This allows the Authority to make mortgage loans to sponsors of affordable multifamily rental units. It also enables first-time and special needs homebuyers to get their piece of the American dream. Additionally, the agency administers a number of federal and state programs providing housing help where it is needed most.

Special Needs Populations: Includes the homeless, elderly persons, persons with a developmental or physical disability, persons with mental illness, persons who are chemically dependent, persons with HIV/AIDS, and migrant and seasonal agricultural workers.

Substandard Housing: Refers to housing units with defined Housing Problems: (1) housing unit has physical defects such as the lack of complete plumbing; (2) the household lives in overcrowded conditions; and (3) housing does not meet standard housing codes.

Supportive Services: Services provided to residents of supportive housing for the purpose of facilitating the independence of residents. Some examples are case management, medial or psychological counseling and supervision, child care, transportation, and job training.

Temporary Assistance for Needy Families (TANF): Administered by the Department of Social Services. It replaced AFDC (Aid to Families with Dependent Children) as the basic income maintenance program for families with children. TANF funds are also needed to provide training, child care and other supportive services for current and former recipients. The funding level is set by the federal government and is not increased based on the state's need. Each state is required to put up matching funds that are also used for client support. Currently all TANF funds are obligated for this client population's support and services. As the economy changes some of these programs may be cut to ensure basic support can still be provided for needy families.

Tenant-Based (Rental) Assistance: A form of rental assistance in which the assisted tenant may move from a dwelling unit with a right to continued assistance. The assistance is provided for the tenant, not for the project.

Very Low-Income: Households whose incomes do not exceed 50 percent of the median income for the area, as determined by HUD, with adjustments for smaller and larger families, except that HUD may establish income ceilings higher or lower than 80 percent of the median for the area on the basis of HUD’s findings that such variations are necessary because of prevailing levels of construction costs or fair market rents, or unusually high or low family incomes. (This term corresponds to low-income households in the CDBG Program. For the purpose of further distinguishing needs within this category, two subgroups—0 to 30% of MFI, referred to as extremely low-income, and 31 to 50% of MFI, referred to as very low-income—have been established.)