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Federal Subsidy Overlap in Affordable Rental Housing in the United States

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Abstract

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The Low-Income Housing Tax Credit (LIHTC) and Housing Choice Voucher (HCV) programs are two of the largest affordable rental housing programs in the United States. The LIHTC assists in the development and preservation of affordable housing while the HCV provides subsidies to households to find housing in the private market. LIHTC and HCV in the form of tenant-based subsidy are often used jointly, but little research has been done to assess this overlap. This thesis explores the functionality of these two programs and how they are used together to address affordable rental housing needs in the United States. Through a systematic literature review and qualitative interviews with experts in the field, this research finds that the two programs serve different roles related to income levels served, neighborhood choice of tenants, and how they function in various markets. The research concludes that as LIHTC and HCV function currently,

they serve a complementary role to one another, addressing housing needs that they do not meet as standalone programs. Specifically, joint use of the programs provides accessible housing options for households with vouchers and allows the LIHTC program to serve lower-income households without cost burden. The findings outline policy recommendations to help the standalone programs better address housing needs and discuss how they can function more efficiently together.

TABLE OF CONTENTS

List of Tables	vii
Chapter 1. Introduction	1
Chapter 2. Background	6
2.1 The Housing Choice Voucher Program	7
2.2 The Low-Income Housing Tax Credit Program	8
2.3 Descriptive Data on Program Overlap	12
Chapter 3. Methodology	14
3.1 Literature Analysis Methods	14
3.2 Interview Methods	15
Chapter 4. Thematic Analysis	16
4.1 Market Differences	19
4.2 Spatial Characteristics	22
4.3 Income Levels Served	23
4.4 Conclusion	24
Chapter 5. Interview analysis	25
5.1 Political Will and Resources	26
5.2 Programmatic Intent and Efficiency	29
5.3 Substitutes or Complements	30
5.4 Conclusion	33

Chapter 6. Discussion	34
Chapter 7. Policy Recommendations	37
7.1 Administrative Streamlining.....	39
7.2 Serving Extremely Low-Income Households.....	40
7.3 Spatial Characteristics.....	42
7.4 Access to Housing.....	43
7.5 Long-Term Approaches	45
7.6 Conclusion	48
Chapter 8. Conclusion.....	49
References.....	50
Appendix A.....	55
Appendix B	56

LIST OF TABLES

Table 1. Summary of the Main Themes of the Literature.....	18
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Chapter 1. INTRODUCTION

The Low-Income Housing Tax Credit (LIHTC) and Housing Choice Voucher (HCV) programs are two of the largest affordable rental housing programs in the United States. The LIHTC and HCV programs address affordable housing through place-based and tenant-based solutions respectively.¹ LIHTC assists in developing and rehabilitating affordable units while HCV provides households a subsidy to cover part of the rent of market rate units. Since its creation in 1986, LIHTC has assisted in the development or rehabilitation of approximately 3 million homes and currently vouchers are serving 2.3 million households nationwide encompassing more than 5 million people (Kneebone & Reid, 2021; *Policy Basics*, 2021).

The LIHTC program serves a certain demographic of lower-income households. Internal Revenue Service (IRS) code requires those receiving tax credits to provide housing at affordability levels of 50% or 60% of Area Median Income (AMI). Specifically, the code requires projects to have either 20% of units affordable to households at 50% AMI or 40% of units affordable at 60% AMI (*26 U.S. Code § 42*, n.d.). Extremely low-income households are defined as those earning 30% AMI or below – a demographic not traditionally served by LIHTC alone as illustrated by the above requirements (*Methodology for Determining Section 8 Income Limits*, n.d.). Because of this, LIHTC developers who plan to house extremely low-income households will use other subsidy sources, including HCV in the form of project-based vouchers. Data from LIHTC projects placed in service through 2018 shows that 47% of residents are extremely low-income and over 40% are receiving some additional form of rental assistance.

¹ Housing Choice Vouchers can also be project-based, meaning they are associated with a specific housing unit rather than a household. PHAs can project-base up to 20% of their vouchers – this may vary based on the regulatory status of the PHA. These vouchers will be tied to units through a contract rather than to individual households receiving the subsidy. In this sense, these vouchers are place-based (*Programs of HUD: Major Mortgage, Grant, Assistance, and Regulatory Programs 2020*, 2020).

Nearly 25% of LIHTC residents using rental assistance were using tenant-based vouchers, and just over 23% were using project-based vouchers (*2018 LIHTC Tenant Tables*, 2021; Lawrence, 2021). These additional subsidies help fill the financial gap that occurs when rents are so low that the resulting cash flow does not meet the operational needs of a project, but only project-based subsidies can be used in underwriting because they are tied to the project. The use of tenant-based subsidy in LIHTC projects, as this research explores, is not predictable and is influenced by a number of factors. LIHTC unit rents are based on income restrictions related to AMI rather than tenant income. This means that households may live in LIHTC subsidized housing and still be cost burdened – defined as households paying more than 30% of their gross income on housing, those paying more than 50% of income or more are severely cost burdened (Williamson, 2011). Research finds that this is true - one study of 14 states found that over 41% of LIHTC households were cost burdened and over 16% were severely cost burdened (O’Regan & Horn, 2013). Though LIHTC is written to serve those at higher AMIs, data finds that it is serving extremely low-income households and doing so either through additional rental assistance or having those households be cost burdened.

Compared to income requirements of LIHTC, HCV primarily serves extremely low-income households. At least 75% of families admitted to a Public Housing Agency’s (PHA) HCV program must have an income at or below 30% AMI. Households receiving vouchers pay 30% of their monthly income on rent and utilities. Voucher payment standards are set between 90% and 110% of Fair Market Rent (FMR) in the metropolitan area and are decided by the Department of Housing and Urban Development (HUD).² The purpose of the payment standard

² In some markets, households may pay more than 30% of their income on rent, but only up to 40%.

formula is for the voucher amount to complement the household income, ensuring that the household is not cost burdened.

The focus of this thesis is on the use of tenant-based vouchers in LIHTC developments. Though some research has been done on using project-based vouchers in LIHTC projects, as explained above, it is mainly used as an underwriting tool. Project-based subsidies are tied to units, making them predictable in terms of location and reason for use, whereas tenant-based vouchers, hypothetically, have much more flexibility in where tenants find housing options. As such, this study assesses the reasons behind the use of tenant-based vouchers in LIHTC developments. If project-based vouchers are referenced in literature or interviews, that will be made explicit in the discussion.

Data on LIHTC is piecemeal given that the program is administered through state housing finance agencies rather than centralized through a federal agency. The program is administered through the tax code under the Department of Treasury but run by the state agencies (*26 U.S. Code § 42*, n.d.). Although the Housing and Economic Recovery Act of 2008 (HERA) established state housing finance agency data reporting requirements for tenant demographic information, compliance with reporting has not been strong (Fischer, 2018). This lack of data is paired with insufficient information on tenant-based voucher use in LIHTC developments. The extent of understanding this overlap and how it occurs are not well documented by research. Billions of federal dollars are spent on LIHTC and HCV annually, yet millions of households across the country struggle to access affordable housing (Olsen, 2000).

Only approximately one in four households that qualify for rental assistance in the form of vouchers receive any (Fischer, 2021). LIHTC and HCV serve different types of households as explained above, and jointly serve millions of households, yet neither program is able to serve all

those who need housing. Some academics have questioned the fairness of doubling up on resources that are already inadequate to serve all eligible households (Bratt, 2019). The programs are used jointly to partially fill this needs gap, but existing research and data on the programs does not provide a full picture of this practice. Without understanding the way these programs are used together, we cannot fully assess how these federal funds are being directed, and more importantly, why they are not sufficiently meeting needs.

The purpose of this research is to explore this overlap, and specifically to look at how the two programs interact to address housing affordability needs. Housing needs are defined in this study as access to affordable housing appropriate for income level, especially for households defined as extremely low-income, at or below 30% AMI. This thesis aims to establish a more nuanced understanding of the reasons for tenant-based vouchers to be used in LIHTC developments and what that means for program functionality and efficiency. To understand how the LIHTC and HCV programs are used jointly to address housing needs, especially for extremely low-income households, this research will answer the following questions:

- 1) How does existing research assess the reasons for the overlap of the Low-Income Housing Tax Credit and Housing Choice Voucher programs?
 - a. Do researchers and practitioners see the programs addressing housing needs jointly that the programs alone do not meet?
- 2) What are the reasons for tenants to use vouchers in LIHTC units?

Literature on this topic often assesses the programs separately. Many studies on LIHTC aim to understand its success in alleviating cost-burden households and how it contributes to or lessens poverty concentration (Ellen et al., 2018; Fischer, 2018; McClure, 2010, 2019a).

Similarly, HCV research discusses spatial patterns in voucher usage and related neighborhood

characteristics (Geyer, 2017; Walter et al., 2015). In looking at the programs jointly, literature outlines how they serve different functions in different housing markets and often compare the cost-effectiveness of each program (McClure, 2017, 2019b; Olsen, 2000; Shroder & Reiger, 2000). Additional studies have looked at how using the programs together can also play into poverty concentration (Ellen et al., 2016). Given the lack of centralized data on LIHTC projects and tenant characteristics, less research has been done on the prevalence of the program overlap, how the programs interact, and whether there could be alternate methods for serving the income levels that the combination of these two programs serve.

Through a thematic analysis of targeted literature which discusses the overlap of the LIHTC and HCV programs, this research aims to better understand the functions and limitations of these programs and how they work together to address housing needs. Additionally, qualitative interviews have been conducted to help supplement the research assessment with practitioners' perspectives and policy experts in the field to further understand the practice of subsidy overlap.

To best address housing affordability needs in the United States, more should be known on the functionality of existing programs. As the two largest affordable rental housing programs that function in very different ways, there is value in understanding the overlap of LIHTC and HCV. Having comprehensive insight from existing research is the first step to assessing the overarching patterns, complexities, and reasons behind this overlap. Supplemented with the perspective from interviews, the hope is that this assessment can suggest policy implications and inform directions for future research.

The following sections will outline the background of the two programs – including the historical context, explain the methods of literature and interviewee selection, analyze the

findings of the literature review and qualitative interviews, discuss the results, and conclude with policy recommendations.

Chapter 2. BACKGROUND

The foundation of federal involvement in affordable rental housing began most significantly with the Housing Act of 1937 and its creation of the public housing program. Though the government had initially been involved with affordable workforce housing development during World War I, and then again through the Public Works Administration during the Great Depression, the Housing Act of 1937 was the inception of government involvement in housing on a broader scale. Though the legislation included many provisions, of note is the effort to create government owned and operated affordable rental housing. Initial construction costs were paid for by federal bonds, while maintenance and operation needs were covered by tenant rents. A variety of factors, including construction cost caps established in the initial legislation, as well as declining tenant rents, led to deterioration and distrust in this approach to affordable rental housing. As presidential administrations changed, and public housing continued to need large amounts of capital to address building maintenance, lawmakers turned to other options to address affordable rental housing needs for low-income families. Though this came in the form of various programs, one of the main shifts was using federal subsidy in the private housing market rather than constructing new units, ultimately leading to the Housing Choice Voucher program or what many know of as Section 8 (Schwartz, 2015).

2.1 THE HOUSING CHOICE VOUCHER PROGRAM

In 1973, President Nixon declared a moratorium on federal housing programs. This was due to a variety of factors including cost and maintenance issues of government owned public housing buildings, as well as criticism over the state of many public housing developments and associated management practices. The moratorium was functionally ended through the establishment of the voucher program in the Housing and Community Development Act of 1974. The program providing vouchers to tenants, which we know of today as the HCV program, was authorized through the Housing and Urban-Rural Recovery Act in 1983 and made permanent in 1988 (McCarty, 2014). This was an effort by lawmakers to find affordable housing alternatives that were not as fiscally burdensome to the government as the public housing program.

The HCV program provides subsidies to households to find housing in the private market. Currently, 2.3 million housing units are being leased nationwide using vouchers which equates to serving 5.3 million individuals. Of these households, federal law requires that 75% are at or below 30% AMI. Descriptive data on this program shows 11% of voucher holders are elderly, 23% are disabled, and 70% are families with children. Many households may overlap in these designations with individuals being elderly and disabled, for example (*Policy Basics*, 2021). Data from the Department of Housing and Urban Development (HUD) shows that of households using tenant-based vouchers, 47% of the heads of households identify as white, 47% as Black, 18% as Hispanic or Latino, 2% as Asian, 1% as Native American or Alaska Native, and 1% as Native Hawaiian or Other Pacific Islander (*Resident Characteristics Report*, n.d.). The program was allocated \$27.3 billion in the Fiscal Year 2022 federal budget (Jeffries, 2022).

Households with vouchers can hypothetically find housing in many different locations rather than being limited to the areas where public housing or other place-based housing is built.

Literature, however, finds this flexibility does not often translate in practice. Owens (2017) conducted a literature review to assess this issue and the ability of voucher holders to access lower poverty, income diverse, and higher-opportunity areas. Separate research highlights the importance of neighborhood on opportunity including economic attainment, healthcare, and education, to name a few factors (Bergman et al., 2020). Owens' research finds that voucher programs actually had little effect on households' ability to access lower-poverty neighborhoods. Walter and colleagues (2015) came to similar conclusions looking at data in Broward County, Florida. Their study finds that the HCV program was not effectively deconcentrating poverty. The two main factors that contributed to this were the high-cost housing market and race. The county has a high concentration of vacation rentals, which increase housing costs, and race is a significant factor related to segregation and associated poverty concentration.

These findings point to various barriers voucher holders face in finding eligible units and property owners who accept vouchers. One study on landlords' acceptance of vouchers found that of over 340,000 units screened, just over 8,700 were voucher eligible. This showcases the onerous process that voucher recipients must go through to even find potential units. The study goes on to find high rates of denial to voucher holders in the five cities studied – the highest rate was in Fort Worth, Texas where 78% of landlords denied vouchers (Cunningham et al., 2018). These difficulties with voucher acceptance and mobility showcase how HCV on its own is not adequately addressing housing needs.

2.2 THE LOW-INCOME HOUSING TAX CREDIT PROGRAM

In a similar shift towards private involvement in affordable rental housing, the Low-Income Housing Tax Credit was created by the Tax Reform Act of 1986. The credit was a result

of legislative negotiations partly to ensure that low- and moderate- income housing was built, but in reaction to the elimination of language from the tax code that provided favorable treatment to real estate investment income (Keightley, 2021). The historic tax credit program was already in place at the time, and lawmakers intended for LIHTC to be written in a similar fashion. In the quick and complex negotiations of the tax reform bill, and in an effort to prioritize affordable housing at a time when the Reagan administration had cut or eliminated many programs, lawmakers pushed to include this provision. The program was initially written to be temporary, but has since become permanent (K. McClure, personal communication, February 9, 2022).

The program awards tax credits to developers who can then sell those credits to investors – the investors get tax benefits, and the developers can then use that equity to fund construction or rehabilitation. The projects must provide a certain number of units available to lower-income households. The equity allows developers to be able to borrow more and sustain lower rents needed to house lower-income households. Equity from LIHTC is not intended to cover all costs of project development or rehabilitation and research shows that developers need numerous funding sources, in the most extreme cases nearly a dozen, to make projects financially feasible (Kneebone & Reid, 2021).

The LIHTC program has complex and incomplete data. Projects do not have continuous affordability requirements – LIHTC projects are only required to remain affordable for 30 years. Since the program is run through state housing finance agencies rather than a federal agency, there are different requirements and practices for tracking projects (Keightley, 2021). As mentioned earlier, the HERA Act has created reporting requirements, with some mixed results on compliance. In 2021, HUD released data on LIHTC projects that were placed in services through 2018. This data shows that nearly half (47%) of tenants served by LIHTC are extremely

low-income – their income is at or below 30% AMI. Additionally, 40% of LIHTC tenants are receiving rental assistance, with nearly 25% of them using tenant-based subsidies in the form of Housing Choice Vouchers. Approximately 11% of LIHTC tenants are disabled, 38% identify as white, 28% as Black, nearly 3% as Asian, 2% as Native American or Native Alaskan, and less than 1% as Native Hawaiian or Other Pacific Islander. Over 10% of LIHTC tenants identify as Hispanic (Lawrence, 2021). The program costs nearly \$11 billion in federal funding annually (Keightley, 2021).

Each State Housing Finance Agency creates Qualified Allocations Plans (QAPs) which establish LIHTC funding priorities. Though QAPs are mandated by federal law and have specific requirements – that tax credits are allocated to projects that serve the lowest-income households and remain affordable for the longest period of time – state agencies can create their own priorities as well (Keightley, 2021). QAPs can prioritize allocating tax credits to projects based on factors like populations served (formerly homeless households, the elderly, households with disabilities, etc.), location of developments, environmentally friendly building standards, and services and amenities provided by the development. These priorities are then translated into associated points for scoring individual projects and allocating the tax credits accordingly. Projects may adjust their design or development plan to meet criteria outlined by the QAP to be more competitive for limited tax credits.

An important aspect of LIHTC allocation is a regulation which allows for what is called a basis boost – an increase in tax credits – for projects located in Qualified Census Tracts (QCTs) or Difficult Development Areas (DDAs). QCTs are defined as census tracts where 25% or more of the population live in poverty or where half of the census tract population has income under 60% AMI in the past year. DDAs are defined by HUD as those with high construction, land, and

utility costs relative to the median gross income of the area (Sally et al., 2018). The increase in credits that comes from developing in these areas is significant, so many projects are planned in order to receive this ‘basis boost’ or in some cases, the projects may not be financially feasible without it. Though DDAs are often in tighter housing markets, the incentive to use LIHTC equity in QCTs contributes to additional affordable housing options in higher-poverty areas. This outcome is expanded on in the literature analysis as it relates to poverty concentration.

Assessments of LIHTC showcase its complex nature. The program involves the use of numerous financial mechanisms, often including funding on the federal, state, and local levels as well as from private entities. The financing structure ties to an equally complex legal structure – ownership of projects involves multiple entities and financial debt is accompanied by various regulatory agreements (Sally et al., 2018). LIHTC projects require funding from numerous sources. These sources are needed because the equity from the tax credits is insufficient for financing an entire development.³ As such, and depending on rent levels and populations served, projects must find additional funding sources. Research on LIHTC has found that its complexity creates administrative burdens and adds to the cost of the program (Sally et al., 2018; Kneebone & Reid, 2021).

LIHTC rents are based on AMIs of a metropolitan area. Given that they are not directly tied to tenant income, like voucher rents, LIHTC units can often still create renter cost burden. Research has highlighted that many households living in LIHTC projects are, in fact, cost burdened. Williamson (2011) found that the majority of households studied in over 300 LIHTC

³ LIHTC has two types of credits: the 4% and 9%. These amounts relate to the tax credit rate. The 4% credit is known as the rehabilitation tax credit delivering 30% subsidy based on the project cost and tax credit rate. The 9% credit provides 70% subsidy. These amounts end up being different in practice. The 9% credit is known as competitive because developers must compete for it whereas the 4% credit is given to projects that use tax-exempt bond financing for at least 50% of the development cost. In some states, however, the 4% credit has become competitive and is being used for new construction (Keightley, 2021).

developments in Florida were cost burdened and that those who were lower income were more likely to be cost burdened. Additionally, households of color experienced more cost burden compared to white households. HUD data from LIHTC units placed in service through 2018 showed that approximately 33% of LIHTC households paid more than 30% of their income on rent. Of the over 40% of LIHTC households that receive rental assistance based on this data, nearly 25% had tenant-based vouchers. Though the data does not detail the overlap between those who are cost burdened and those who have rental assistance, the numbers show that rental assistance in some form covers more than those who are cost burdened. It is important to note, however, that many states do not report all their tenant information, so much of this data is missing, especially for tenants receiving rental assistance (*2018 LIHTC Tenant Tables*, 2021).

2.3 DESCRIPTIVE DATA ON PROGRAM OVERLAP

The U.S. General Accounting Office provided a report to the U.S. Department of Housing and Urban Development in 1999 with descriptive data on the use of tenant-based vouchers in LIHTC developments (England-Joseph, 1999). This report was requested by HUD's office of Policy Development and Research as a follow up to a previous report to look at the use of tenant-based assistance in LIHTC properties. The previous report was a larger assessment of LIHTC properties and tenants, while this report focused on the use of tenant-based vouchers in tax-credit properties. The authors conducted a quantitative analysis of the overlap of the programs and the characteristics of households receiving rental-assistance. Their findings included that in 36% of the properties studied, there was at least one household using tenant-based rental assistance, and that households receiving tenant-based assistance tended to be more cost burdened than those receiving project-based assistance. They also found that there was a

statistically significant difference in geographical distribution between tenants with and without rental assistance in LIHTC projects.

Additional descriptive data on the overlap of subsidies comes from LIHTC databases, which are often incomplete. Climaco and colleagues (2009) used address matching to understand the use of HCVs in LIHTC projects. They found approximately 140,000 HCV households in LIHTC projects as of 2006, which represents 6.5% of all HCV households. The authors note that if there were a LIHTC database with complete building level addresses, they likely would have found an increase of HCV households in LIHTC projects. In this vein, this research estimated that with more complete data, nearly 13% of voucher holders are living in LIHTC units (Climaco et al., 2009). In a 2018 report that assessed data from LIHTC units up until the end of 2015, HUD found that 18.7% of households in LIHTC units nationwide are using tenant-based vouchers. It is important to note that 17 states did not report the source of federal rental assistance for any households in LIHTC units. Additionally, information received from states on the amount of federal assistance used in LIHTC units compared to the reported sources are inconsistent, causing concerns of whether the data is complete. Similar reporting discrepancies in a 2021 report on projects placed in service through 2018 found an increase of tenants using housing choice vouchers - of the 40% of households using rental assistance, 25% of them were using tenant-based vouchers (2018 LIHTC Tenant Tables, 2021). Other studies found that of households at 30% AMI and below in LIHTC units, 70% were also using an additional rental subsidy (O'Regan & Horn, 2013).

Chapter 3. METHODOLOGY

The below sections explain the methods for both the literature analysis and interviews. Eight articles and one thesis were selected for the literature analysis based on the narrow criteria of research that discussed the specific overlap of HCVs in the form of tenant-based subsidy in LIHTC developments. Five interviewees were selected to provide a national understanding of the programs from various professional perspectives. Both sections also highlight the limitations of the selection processes. What these limitations mean for this study and future research is explained more fully in the Discussion section.

3.1 LITERATURE ANALYSIS METHODS

There is limited research on the prevalence of the overlap of the LIHTC and HCV programs. By analyzing the few articles that discuss the joint use of these programs, this thesis aims to provide a more holistic picture of the functionality, impact, and limitations of both programs. The intent of understanding and typifying existing research is to better assess the success of these programs in addressing housing needs, especially for extremely low-income households, and what needs using tenant-based vouchers in LIHTC units meet that neither program does on its own.

Given that literature on this topic is fairly limited, I used a manual, step-by-step search process to find articles rather than a more structured, academically established process for literature compilation. To assemble the literature list, I searched using the larger University of Washington (UW) database and the list of journals provided in Appendix A using the keywords: Low-Income Housing Tax Credit, Housing Choice Voucher Program, LIHTC, HCV, and LIHTC

‘AND’ HCV. Because the UW database is expansive, I only searched using the phrase LIHTC ‘AND’ HCV, given that searching one program alone brought back thousands of unrelated results. I also limited this search to peer-reviewed journal articles, though one document included in the analysis is a thesis. I selected articles based on their pertinence to my research questions related to both types of subsidies. I did this by gauging topics from the article title and if needed, the abstract. I excluded any literature on housing affordability research done outside the United States. I also chose to exclude literature where the main focus was on issues related to but not central to my research. This included research on housing placement related to education, access to and spending on food, prevalence of crime, and social support systems, to name a few areas. I also reviewed the reference lists of pertinent literature – that which specifically addressed the overlap of the two programs – to gather additional resources. Given the limited literature on the topic, I chose not to limit the search to contemporary articles, though most resources are no older than 25 years. This research analyzes eight articles and one thesis written between 2009 and 2019.

3.2 INTERVIEW METHODS

As a way to guide my research, assist in narrowing my research questions, and to inform my methods, I conducted informational interviews in the fall of 2021. This served to gather information from local practitioners and assess my interview protocol. Though the perspective of local practitioners is valuable, my research questions aim to understand these programs nationally. The formal interviews I conducted were with a purposive sample of individuals who have a more holistic, national understanding of the programs. The reason for this, as much of the literature shows, is that these programs function differently across housing markets, so local

practitioners may have a specific understanding based on their area. A national perspective from interviewees, though limiting, best provides information on how the programs function nationwide and complements the literature that was analyzed, which is often discussing the programs from the national perspective. Though many articles use data from specific localities or states, the discussion and findings are almost always used to understand the programs more comprehensively.

I conducted interviews with experts in three different areas: research, advocacy, and policy. I chose five individuals, two researchers, two individuals who are higher up at advocacy and policy organization to get an understanding of the dynamic, political nature of the programs, and a HUD Deputy Assistant Secretary who understands the evaluation and implementation of the programs. More details on interviewees are provided in Appendix B.

All interviews were conducted over Zoom with use of the record and transcribe functions. Transcriptions were then reviewed for accuracy. Major points and quotes were confirmed with interviewees. The interview questions were crafted based on information in the literature in conjunction with committee members Professors Rebecca Walter and Rachel Berney, as well as with input from Professor Gregg Colburn. The list of interview dates and questions are provided in Appendix B.

Chapter 4. THEMATIC ANALYSIS

The following literature analysis takes the limited existing literature on the use of tenant-based subsidy in the form of Housing Choice Vouchers in LIHTC developments and categorizes it into three thematic groups: market needs and differences, neighborhood choice and spatial

characteristics, and income levels served. These themes help illustrate reasons that tenant-based subsidies are being used in LIHTC developments, some understanding of the prevalence of this practice, and takeaways for how the programs can be efficient in serving housing needs separately and jointly. Table 1 highlights the main themes and key takeaways of the literature analysis discussed in more detail in the sections below.

Main Theme	Main Points	References
Market Differences	<ul style="list-style-type: none"> • Higher opportunity neighborhoods have fewer units that are accessible to voucher holders – rents there may be above the payment standard. • In tight markets, where voucher holders may have difficulty finding units, LIHTC units can be a more accessible option. • A study in Ohio found a higher likelihood of tenant-based vouchers in LIHTC developments in tight housing markets. 	McClure (2011), Richter et. al. (2019)
Spatial Characteristics	<ul style="list-style-type: none"> • Location of LIHTC developments is not increasing the concentration of poverty. • Some evidence shows that LIHTC developments are reducing poverty in high-poverty neighborhoods over time. • Poorer LIHTC tenants are more likely to live in poorer areas compared to other LIHTC tenants. • Almost half of LIHTC tenants in high-poverty neighborhoods receive rental assistance in the form of tenant-based vouchers. • Households using HCVs in LIHTC projects were not accessing higher quality neighborhoods, but LIHTC developments may provide higher quality housing in high-poverty neighborhoods. 	Ellen et. al. (2016), Richter et. al. (2019), Williamson et. al. (2009)

	<ul style="list-style-type: none"> • Less than 12% of LIHTC developments in Florida assessed in one study were located in QCTs, but over 30% of vouchers used in LIHTC projects were located in QCTs. 	
Income Levels Served	<ul style="list-style-type: none"> • There is a shortage of housing units for extremely low-income households nationwide. • HCV use in LIHTC serves lower income households. • In data from 18 states, 45% of households in LIHTC units have extremely low incomes. • Higher percentage of LIHTC households using rental assistance are extremely low-income compared to households not using rental assistance and households without rental assistance had higher incomes generally compared to voucher holders. 	Bowling (2018), Ellen et. al. (2016), McClure (2011), O'Regan et. al. (2013)

Table 1. Summary of the Main Themes of the Literature

This study's literature analysis highlights the policy debate on how best to address housing needs through the use of LIHTC and HCV. Given the supply and demand-side nature of each program, respectively, and their intent to serve diverse tenant income levels, this analysis asks if they are best used as substitutes for one another depending on needs in specific localities, or do they, in fact, complement one another to serve housing needs that neither program is addressing on its own. Researchers agree that tenant-based subsidies are more cost effective and could serve millions more households compared to supply-side subsidies like LIHTC (Olsen, 2000). Other research has come to similar conclusions regarding cost effectiveness, while also noting that the LIHTC and HCV programs are more or less cost-effective in different housing markets. In the simplest sense, some markets may have high vacancy rates making vouchers a better approach to addressing housing needs, while other, tighter markets may need increased

supply to serve demand (McClure, 2011). Private housing options in tighter markets may have high enough rents that they are over the payment standard for vouchers, making it more difficult for households to use vouchers in those units. When looking at cost effectiveness, it is valuable to understand what the joint use of these two programs provides that each program alone does not. As described in the introduction, HCV subsidies allow lower-income individuals access to LIHTC units who may not be able to pay LIHTC rent with their income alone without being cost burdened. The reasoning behind this use is fairly straightforward, but the ramifications of it and assessment of functionality are more complex. The below analysis addresses literature on the overlap of these subsidy programs and contemplates, from efficiency, functionality, and accessibility perspectives, the role of these two programs as substitutes to or complements of one another.

4.1 MARKET DIFFERENCES

As a demand-side subsidy, and one whose regulations are written to mainly serve households with extremely low-incomes – below 30% AMI – Housing Choice Vouchers, serve different needs than the physical developments, either newly constructed or rehabilitated, financed through the LIHTC program. The nature of the two programs – one intended to house people in existing units and one to develop or rehabilitate housing – means they ultimately function differently and assist varied demographics. Given the plethora of housing markets that exist across the country, it is understandable that some markets need more housing supply, while others do not. As such, these programs may function more efficiently depending on market needs. As a development program, LIHTC should function best for markets in need of additional housing supply while the HCV program is more suited for markets with existing supply that is

accessible at the voucher payment standard. Research finds however, that this dichotomy is one of many factors that contribute to how these programs operate in varied markets.

Research finds that the majority of housing markets in the United States have a surplus of units, and therefore a demand-side approach to affordability – providing rental subsidy – would benefit individuals seeking housing (McClure, 2019a). It is important to note, however, that this is not just the case for markets with ample units. Vouchers can assist households with lower incomes in markets with low vacancy rates, though there are often more barriers to households finding units in these markets. Research on the census tract level finds that LIHTC developments are not being placed in census tracts that need affordable units, but rather tracts that have a surplus. Nationwide, the income range for those between 30% and 60% AMI have surplus housing units across the country, while those below 30% AMI are in need of an additional 6.7 million units (McClure, 2010). This research suggests the possibility of substituting the two programs based on the housing market. It is of note that there are numerous other federal, state, and local housing programs that may work in conjunction with or outside of HCV and LIHTC to address housing needs for those with extremely low-income. Currently, if states do not use LIHTC funding, it is returned to the federal government. This means that states are allocating tax credits in markets that do not need additional units, because they would rather use the resource than return it (McClure, 2019a). This assessment shows an inefficiency in the one-size-fits-all nature of the LIHTC program.

Quantity of housing stock is of importance for voucher holders seeking housing options, but another factor is the nature of the housing market – are voucher holders able to find adequate housing within the confinement of the voucher payment standard? Given that the payment standard is at the 40th percentile of fair market rents in a metropolitan area, in tight markets with

high rents, the payment standard may not be sufficient to compete for those housing options. Research finds that voucher holders can have difficulty finding units (Cunningham et al., 2018; Geyer, 2017; Walter et al., 2015).

Though some states and localities have source of income discrimination laws, making it illegal to not accept a tenant using a voucher, many markets do not have such regulations. Specifically, as of 2019, 13 states and over 50 cities have passed source-of-income laws, but research estimates that these laws cover only about half of voucher holders nationwide. Though research finds that these laws have an effect on voucher use, it is often modest (Wykstra, 2019). Even in markets with source-of-income laws, landlords must voluntarily agree to participate in the program, adding administrative burden and unit inspections unique to voucher holders that would not be required for tenants without vouchers. Though source-of-income laws do assist in hampering discrimination, research finds that only one in three voucher holders are protected by such laws in practices (Bell et al., 2018). When voucher holders do find units, especially in tighter housing markets, they are often in higher-poverty neighborhoods – likely because those market rate options are low enough to meet the voucher payment standard (McClure, 2010). Because of this, studies find that LIHTC developments provide accessible housing options to voucher holders in tighter markets (Richter et al., 2019).

The voucher as a mobile subsidy provides opportunity and challenges. Though its intent is to allow for more flexibility in neighborhood choice, in practice this does not pan out as easily as expected. LIHTC units provide accessible housing options for voucher holders that may have difficulty finding market rate options to use their vouchers due to insufficient payment standards in tighter markets, discrimination against voucher holders, or a combination of factors.

4.2 SPATIAL CHARACTERISTICS

Various studies address how the use of vouchers in LIHTC units relates to poverty concentration. Though the HCV program intends for tenants to have flexibility and aims for households to be able to access all neighborhoods, including those with higher opportunity, studies show this is not always the case. There are mixed results from studies on poverty concentration related to LIHTC projects. Research discusses how the incentive for LIHTC units to be developed in QCTs contributes to poverty concentration. QCTs are census tracts with 25% or more of the population living in poverty or where half of the census tract population has income under 60% AMI in the past year (Scally et al., 2018). Williamson (2009) found in their examination of LIHTC projects in Florida that though less than 12% of the LIHTC developments studied were located in QCTs, over 30% of vouchers used in Florida LIHTC projects were in QCTs. This shows a tendency for voucher holders in LIHTC units to be in higher-poverty areas. Ellen and colleagues (2016) came to similar conclusions, finding that lower-income LIHTC tenants were more likely to live in lower-income neighborhoods compared to LIHTC tenants with higher incomes. This study also found that almost half of LIHTC tenants in high poverty neighborhoods were receiving rental assistance. Given the appropriations process and allocation of vouchers at the time, the study assumed this is in the form of tenant-based rather than project-based vouchers.

Some research has found that LIHTC project locations are not increasing poverty concentration but also not decreasing it, while other studies show that LIHTC projects are in fact located in neighborhoods with higher poverty (Ellen et al., 2016). Studies have also found that lower-income LIHTC tenants live in more disadvantaged neighborhoods as did Black and Hispanic tenants compared to white tenants (Ellen et al., 2018; McClure, 2010, 2019a). Counter

to that is findings that LIHTC projects are actually reducing poverty overtime in high-poverty areas (Ellen et al., 2016). Though some LIHTC developments are in higher-opportunity areas, research in Ohio found that tenants using vouchers in LIHTC units were not accessing higher-opportunity neighborhoods. In this regard, Williamson, and colleagues (2009) recognized the possibility for LIHTC developments to provide higher quality units compared to market options in higher-poverty areas.

Research has found that though vouchers allow for some success in deconcentrating poverty, especially compared to public housing, they do not remedy this concentration (Turner, 2017). In looking at voucher use in LIHTC developments, research finds continued concentration in higher-poverty areas which was not the same for higher-income LIHTC tenants. This shows that both programs still face challenges separately with developing and placing tenants in higher-poverty areas and this phenomenon plays out when used jointly as well.

4.3 INCOME LEVELS SERVED

As described above, the program guidelines of LIHTC and HCV prioritize different income levels. Whereas HCV is majorly for serving extremely low-income households (30% AMI or below), the tax code establishes that LIHTC serves higher incomes in comparison (50% and 60% AMI or below). Other research shows how using the two programs jointly meets housing needs that LIHTC alone does not address. Studies have found that given the difficulty for voucher holders to find adequate housing, LIHTC units are a viable housing option for those households, especially ones that are extremely low-income (Bowling, 2018; Williamson et al., 2009). Specifically, O'Regan and Horn (2013) found that 45% of LIHTC tenants were extremely low-income, with incomes at or below 30% AMI. Of those tenants, 70% had some form of

additional subsidy, either tenant-based or project-based. Other research similarly finds that LIHTC units are serving very low-income households and those with special needs (Richter et al., 2019). In line with these findings is that the use of HCVs in LIHTC projects is higher in tighter markets. Specifically, research in Ohio finds that in tighter markets, very poor households – defined in this study as those with incomes below 50% AMI – in LIHTC projects had a 5% higher chance of being a voucher holder (Richter et al., 2019). Part of the reason for this is that LIHTC projects may have on-site or other accessible services that would not exist in market-rate options. Additionally, research shows that LIHTC projects, given that they serve those at 50% or 60% AMI, are providing housing options for an income bracket where there is a surplus of housing while millions of extremely low-income households struggle to find housing (McClure, 2011).

Given that LIHTC units serve higher AMI levels, tenants in those units may be in subsidized housing but considered cost burdened. Research finds that voucher holders in LIHTC developments are more likely to be lower income, showcasing how the joint use of the programs assists with housing cost burden. Additionally, the LIHTC units provide services and amenities that are valuable to these populations that would not be available in market rate units.

4.4 CONCLUSION

The literature on the use of tenant-based vouchers in LIHTC developments analyzed for this research discusses various reasons and ramifications for subsidy overlap. Research shows how the programs interact in different housing markets and who they serve. Many studies look at how location and neighborhood characteristics play into the use of these programs and their overlap. This literature both emphasizes the nature of substituting these programs in order to best

serve varied housing markets and also highlights the benefit of using the programs jointly given that they serve different, arguably important functions, that neither program addresses on its own. An assessment of the literature showcases the shortcomings of existing research that does not give holistic, nationwide understanding, and the need for a better, quantitative understanding of the prevalence of this overlap. The literature also provides numerous policy recommendations to adjust the programs on their own, and jointly, to provide more flexibility to address varying housing needs nationwide. Policy recommendations are discussed in more detail in the Policy Recommendations section.

Chapter 5. INTERVIEW ANALYSIS

Interviews for this research were conducted with five national experts in the field: Emily Cadik, Executive Director of the Affordable Housing Tax Credit Coalition, Dan Emmanuel, Senior Research Analyst at the National Low Income Housing Coalition, Will Fischer, Senior Director for Housing Policy at the Center on Budget and Policy Priorities, Dr. Kirk McClure, Professor Emeritus at the University of Kansas, and Dr. Kurt Usowski, Deputy Assistant Secretary for Economic Affairs at HUD's Office of Policy Development and Research. More information on interviewees can be found in Appendix B.

Though interviews were conducted with experts who occupy different spaces in their engagement with these programs, consensus and themes emerged. It is worth noting the positionality of interviewees. Those coming from an advocacy or practitioner perspective tended to be somewhat more supportive of existing programs compared to researchers. That is not to say

that advocates and practitioners did not have critiques but tended to be accepting of working within the programmatic and political constraints.

Though advocates and practitioners were more optimistic about the programs' functioning, almost all interviewees highlighted limited resources as a major limitation of both programs. Overarching interview themes included: political will and resources, programmatic intent and efficiency, the nature of the two programs and their role as substitutes or complements, and related policy suggestions that will be discussed more in the Policy Recommendation section.

5.1 POLITICAL WILL AND RESOURCES

One of the most striking themes of the interviews was a recognition that in order to fully address the issue of housing affordability for extremely low-income households, the U.S. must have the political will to do so, mainly in the form of resources. "There are not enough resources devoted from Congress to serving all low-income people," is how Cadik assessed the delta of affordable housing for low-income households (E. Cadik, personal communication, February 18, 2022). Researchers and advocates alike recognized that the existing tools work as intended, in most cases, but ultimately, they are not expansive enough.

Fischer highlighted the lack of adequate funding to fully meet housing needs because the voucher program is funded through Congressional appropriations – an annual budgetary process – rather than as an entitlement. The appropriations process makes for uncertainty of funding due to the continuing resolution mechanism which extends funding at current levels in a piecemeal fashion when budget consensus is not yet reached (Somanader, 2014). Additionally, congressional appropriations rely on partisan agreement and support for certain funding levels – housing programs over the last decades have seen significant decline in funding. Budget caps for

discretionary spending put in place in 2011, for example, have resulted in an annual decrease in funding by \$6.2 billion between 2010 and 2013. Comparisons of the number of households assisted annually have dropped dramatically from 160,000 additional households each year between 1975 and 1995 to only 20,000 annually from 2010 to 2015 due to decreases in funding. This is happening in a larger housing environment in which affordability issues are growing, but rental assistance is not keeping pace, exacerbating the problem (Rice, 2016). Other interviewees alluded to this issue and implied that making vouchers an entitlement, like what has been done to other federal programs, like the Supplemental Nutrition Assistance Program (SNAP), would assist with reliability of funding – this concept is discussed further in the Policy Recommendations section (D. Emmanuel, personal communication, February 16, 2022; W. Fischer, personal communication, March 4, 2022).

McClure highlighted concerns over how the LIHTC program has been adjusted and updated based on the will of developers. He explained that the program can be overly generous to developers. As such, he sees advocacy for program adjustments to continue to favor the developers rather than making the program more efficient to serve housing needs. McClure recognized the nature of our housing market and stated, “We can’t depend on the private sector to do our low-income housing [development] for us.” McClure expressed openness in nationalizing a segment of the rental stock in the U.S. as a possible solution to meet housing needs. He pointed out that vouchers are more politically feasible than the creation of public housing – a rationalization for the shift away from direct government involvement in affordable housing (K. McClure, personal communication, February 9, 2022).

Emmanuel discussed how legislation terminating the construction of any new public housing has severely limited its stock nationally (D. Emmanuel, personal communication,

February 16, 2022). The Faircloth amendment, passed in 1998 as part of the Quality Housing and Work Responsibility Act ceased all public housing development by not allowing the use of any capital or operating funds for the construction of new public housing units – a PHA cannot increase its public housing stock from the level it was at on October 1, 1999 (Brey, 2021). This legislative decision, as well as a continued decrease in federal funding for public housing, has led to programs that allow PHAs to convert their public housing units to more reliable funding sources, like project-based vouchers (PBVs) and project-based rental assistance (PBRA) (*Demolition and Disposition*, n.d.; *Rental Assistance Demonstration*, n.d.).

One cannot understand the creation of the LIHTC and HCV programs without the historic context of government engagement in affordable housing. Public housing, at its inception, had regulations that led to difficulty in meeting maintenance needs. The low quality of the housing, due to caps on the amount of money that could be spent on building each unit, paired with decreasing tenant rent over decades – tenant rent was meant to be the source of operating revenue – led to slow deterioration and maintenance backlog of over \$20 billion as of 2010 (Schwartz, 2015). In order to address this, but with limited political will to put resources into public housing, policymakers opted to turn to other funding sources, resulting in programs like the Rental Assistance Demonstration (RAD) program and Section 18. These programs allow the conversion of public housing units to PBVs and PBRA. New revenue sources, often coupled with LIHTC equity and other debt, can assist PHAs in upgrading housing stock and provide a more reliable funding stream for future maintenance needs. These shifts in how housing maintenance is addressed and how LIHTC and HCV play into it are vital in understanding the larger context of political will and resources available to address affordable housing needs.

5.2 PROGRAMMATIC INTENT AND EFFICIENCY

In understanding the use of tenant-based subsidies in LIHTC units, a number of interviewees pointed out the inherent incompatibility of serving extremely low-income households with the underwriting needs of housing developments (D. Emmanuel, personal communication, February 16, 2022; W. Fischer, personal communication, March 4, 2022; K. McClure, personal communication, February 9, 2022; K. Usowski, personal communication, February 25, 2022). As is highlighted in other research, the nature of development and the resources needed for proper operations, maintenance, and debt service cannot be met by extremely low-income households paying only 30% of their income on rent (Kneebone & Reid, 2021). Emmanuel and Fischer highlighted how LIHTC rents are established compared to the voucher payment standard. Again, the intent of these rents is for different purposes – for LIHTC, developers need the stability of flat rents based on AMIs, whereas the purpose of vouchers is to ensure a household is not cost burdened. These two intentions do not align – the priorities of a developer are different from those of low-income tenants. As such, and many interviewees recognized the need for both programs in order for both developer and tenant needs to be addressed (D. Emmanuel, personal communication, February 16, 2022; K. Usowski, personal communication, February 25, 2022).

Interviewees also emphasized the limitations of national programs with a one-size-fits-all approach. The nature of voucher payment standards and LIHTC rent levels mean they operate differently in various markets. Emmanuel described how rent levels based on AMI make sense from a developer's perspective, because it is not feasible for them to base their underwriting on various levels of rent that are tenant dependent, but that ultimately means that tenants in LIHTC units without vouchers can be cost burdened. Usowski also highlighted this complexity as it

relates to market differences. He described that in some markets the payment standard at the 40th percentile of market rents will allow voucher holders to find a variety of units, but in tighter markets, there may be limited housing stock at that rent, ultimately leading voucher holders to LIHTC developments.

In discussing inefficiencies with LIHTC, McClure highlighted the limitations of the program's focus on new construction rather than rehabilitation and preservation. New construction is often more politically popular when that is not the most important market need. Fischer also brought this up as it relates to substitution of programs and flexibility in funding. Fischer expressed concerns that if localities had the ability to transfer voucher funding into LIHTC development and vice versa, local political pressure may prioritize new construction when that may not be the best tool to meet housing needs.

Interviewees majorly recognized the tension between the goals of the LIHTC and HCV programs to ensure that developers have revenue to adequately develop, maintain, and operate a building and that households do not face cost-burden, respectively. Because of this, the most common takeaway was that the two programs can work together in order to address the needs of developers as well as properly serve tenants.

5.3 SUBSTITUTES OR COMPLEMENTS

The majority of interviewees recognized the need to use the programs jointly. Whereas there were some beliefs that markets with higher vacancy rates do not necessarily need tax credit allocation as much as they need tenant-based subsidy, within the current context of the programs, many interviewees highlighted the benefits of using both programs to address needs that neither program sufficiently does on its own. Almost all interviewees agreed that LIHTC developments offer voucher holders higher quality housing than what can be found in the private market (E.

Cadik, personal communication, February 18, 2022; D. Emmanuel, personal communication, February 16, 2022; W. Fischer, personal communication, March 4, 2022; K. McClure, personal communication, February 9, 2022).

Other benefits include that LIHTC projects may have services available for special needs populations, may be in locations near amenities and transit opportunities, and can incorporate energy efficiency and innovative building design based on QAP priorities. Also, a number of interviewees pointed out that LIHTC developments cannot discriminate based on source of income. Though numerous localities and states throughout the country have source of income discrimination laws, it may still be challenging for voucher holders to find housing in the private market due to discrimination – as such, LIHTC units can be an accessible housing option (E. Cadik, personal communication, February 18, 2022; W. Fischer, personal communication, March 4, 2022; K. Usowski, personal communication, February 25, 2022).

Though many interviewees discussed the ability to use vouchers in different housing markets, Cadik aptly pointed out, “It is not just a city-to-city issue, but population to population...not all tenants are the same.” This comment highlights that households have different needs. Compared to private market housing, especially at rent levels available to voucher holders, LIHTC developments can provide services and amenities targeted to certain demographics, including for those who are elderly, disabled, families with children, or other household types. These benefits can come in the form of direct case management, childcare, and community or recreation spaces. Cadik also discussed that LIHTC, as a supply-side program, has benefits related to economic development, job growth, and community revitalization that the voucher program alone would not contribute to. The voucher program, alternately, provides

mobility that the LIHTC program does not (W. Fischer, personal communication, March 4, 2022).

As described above, all interviewees recognized the inherent nature of a supply side program and the need to have high enough rents to operate the building and pay off debt and how it conflicts with providing housing for extremely low-income households. Ultimately, the rent levels that those households are able to pay without being cost burdened do not allow for enough cash flow to keep a building operational. As such, many interviewees saw the need for vouchers, and the benefit of LIHTC and HCV being used together in order to address this issue.

Usowski discussed that research addressing the cost effectiveness of each program which finds that tenant-based subsidy can serve more households at a lower cost does not consider that those vouchers are not playing into the long-term viability of rental housing. Usowski explained that, though market specific, the payment standard at the 40th percentile does not adequately cover operating and maintenance costs in higher cost markets. Because of this, it is overly simplistic to compare cost-effectiveness without understanding the static nature of voucher payments compared to the continual costs associated with physical structures. In a similar vein, Emmanuel explains that the market is segmented, and landlords will do what is best to preserve their bottom line – in weaker markets this may mean opting to demolish or converting the unit to another, more profitable use.

Emmanuel also highlighted the sustainability of vouchers compared to that of LIHTC. Vouchers will continue to serve affordability needs unless the program is rewritten or changed significantly, whereas affordability restrictions for LIHTC developments are limited. The program requires projects to meet affordability requirements for at least 30 years, though some states have even longer affordability periods (Scally et al., 2018). This causes difficulties when

projects reach their term and can be converted to market rate units. If there is no statutory requirement for continued affordability, the LIHTC program is written in a way that presents constant issues of preservation. This is especially true now as projects that were developed in the initial years of the program are reaching their 30-year mark. A recent report estimated that nearly 490,000 units in approximately 8,400 developments will reach year 30 between 2020 and 2029. This number is nearly a quarter of all LIHTC units nationwide (Aurand et al., 2018).

LIHTC units provide housing options and related services and amenities for various demographics who would not have access to them in the private market. The most basic of these is that LIHTC units are housing options that will accept voucher holders. More specific services may include those for elderly households, childcare, or amenities for recreation. Alternately, though vouchers do not factor into the underwriting or long-term maintenance needs of a building, they do provide a sustainable subsidy option overall – meaning their subsidy is preserved whereas LIHTC developments have a limit to their ability to serve as affordable housing.

5.4 CONCLUSION

Most interviewees see the two programs, as they currently function, as complementary – the consensus was that the programs serve different needs and ultimately benefit tenants when used together. Many interviewees recognized the incompatibility of development and serving housing needs – for projects to pencil out, they need adequate revenue from rents that does not come from those with extremely low-incomes without them being cost burdened. Most significantly, interviewees had consensus in recognizing that the main issue related to both programs is not the way they are administered or used together – though there was recognition

that streamlining processes and making them less administratively burdensome would be beneficial – but that the U.S. needs to increase resources in order to adequately address affordable housing needs nationwide, especially for those with the lowest incomes.

Chapter 6. DISCUSSION

This analysis highlights how the two main federal rental subsidy programs are jointly addressing needs and reasons that tenant-based subsidy is being used in LIHTC developments. Additionally, this research provides policy implications to adjust or re-evaluate these programs, both as they function separately, and how they interact together. At the heart of understanding the relationship between the two programs is the tension between their interests and goals. This manifests most simply through the priority of housing those with lower incomes in ways that avoid cost-burden compared to the need for adequate revenue to develop or rehabilitate physical units as well as maintain and operate them. It is through this lens that we can contemplate the nature of the relationship between these two programs.

The limited literature on this topic showcases both a need for additional research and an important assessment of the status quo and how rental housing needs are addressed in this country. The purpose of this thematic analysis was to get more clarity in understanding the reasons behind and implications of the interaction of these programs. Interviews assisted in highlighting common themes while also expanding on program benefits and limitations as well as possible policy recommendations.

Literature on this topic highlights three main themes when assessing the use of tenant-based subsidy in LIHTC projects. These relate to market differences, mobility, and neighborhood choice, and emphasized in this research, the nature of each program to address housing

affordability needs for various income groups. Interviews touched on similar topics, but also discussed political will and resources, programmatic intent and efficiency, and the ways the programs can work as complements or substitutes – this last item was also one of the main research questions Richter and colleagues (2019) studied.

Themes about market needs are at the forefront of how these programs are used. Research emphasized the need to be able to substitute program funds given that some markets have sufficient housing stock while others do not – various interviewees countered this, believing that the programs, as they currently exist, are needed jointly to truly address housing needs. Accessibility of rental housing programs to those with extremely low incomes was highlighted in literature and interviews through a recognition that the financing of housing development and rents affordable to those with extremely low incomes are incompatible. As such, alternative funding sources, direct subsidies, and other options are found to fill that rental gap. Additionally, interviewees addressed aspects of preservation of affordable housing related to both programs, differences of voucher holder needs in terms of services and amenities related to LIHTC versus market rate housing, and supply-side subsidy's influence on the local economy, among other items.

Regarding neighborhood choice and mobility, most research showcased that the voucher program and LIHTC do not necessarily provide significant mobility or access to higher-opportunity neighborhoods, but still recognize that LIHTC developments may draw tenants due to their location – this assessment was echoed in interviews. Interviewees discussed the ability for voucher holders to access neighborhoods with needed services and transit through LIHTC developments as well as providing voucher holders higher-quality, newer units that they might

not find in the private market. Additionally, LIHTC units often have services and amenities that voucher holders would likely be unable to find in private market housing.

Ultimately, the two programs are designed to serve different income levels – with LIHTC regulations tailored to those at 50% and 60% AMI compared to the requirements that 75% of voucher holders be at or below 30% AMI. Because of this, and the lack of sufficient LIHTC and HCV resources, there is a delta in providing affordable rental housing options to all households in need, and especially those at lower income levels. Given the tension that exists between having adequate revenue to build, maintain, and operate housing while at the same time ensuring that households do not face cost-burden – spending more than 30%, or extreme cost-burden, spending more than 50% of their income on housing – this research finds evidence for the use of both the LIHTC and HCV programs jointly to address housing needs. The current constraints of both programs, due to resources and program structure, limit the efficiency of these programs working together to adequately meet these needs. It is important to note that this research shows the programs complement one another under their current structures. There are changes to both programs, outlined in the Policy Recommendations section, that would adjust the programs on their own to help serve the needs they are addressing jointly.

This study was very narrow in its focus on literature that addressed the use of HCVs in the form of tenant-based subsidy in LIHTC developments. There is much additional research that looks at the programs separately. Research on LIHTC alone adds to themes and findings of this study by understanding poverty concentration of LIHTC units, assessing what demographics are served, and how the program meets household needs related to access to services, education, and safety. HCV research touches on program efficiency, barriers to using vouchers, understanding voucher use in different markets, and assessing the true mobility of such a subsidy. This is just a

fragment of the immense research that has been done and future research can look at this larger batch of literature to further assess program overlap.

This thesis focused on interviewing experts who understood this program nationally. The interviewees for this study were limited based on the authors choice and time constraints, and it is recognized that there are many more individuals who could have been interviewed on this topic who had a national understanding. Additionally, there are a plethora of practitioners on the local level who have their own unique perspective on how these programs function and interact. An understanding of local practices would provide a much more nuanced understanding of how the programs work in different housing markets and would be valuable in getting additional information on program limitations and best practices.

Existing quantitative assessments on the prevalence of this overlap are piecemeal. Without a full picture of this overlap nationwide, it is difficult to understand just how widespread this practice is and how best to adjust the programs. This item seems to be of top importance for future research. Qualitative research with local practitioners would also provide incredible value to navigate the tension between a one-size-fits-all federal programs and the unique needs of localities.

Chapter 7. POLICY RECOMMENDATIONS

In approaching solutions to providing affordable rental housing, we must recognize both the past and current political context. Historic practices in housing policy and compromises made as far back as the 1937 Housing Act have set up a decades – and nearly a century – long struggle for the government to address adequate rental housing affordability. This history and the current state of affordable housing highlight a larger values assessment of what housing means in this

country and who society believes should have access to it. Given this background and the current state of the housing system, there ultimately are inadequacies in ensuring that all those living in this country have access to quality affordable housing. Dr. McClure gets at these deficiencies with a hint of optimism. “We already have the tools, but we need to have the political will to use them wisely.” (K. McClure, personal communication, February 9, 2022).

This situation is made even more complicated when the current tools might not be the most efficient. What is the best approach to updating these tools with a potential lack of political will? The baseline of this endeavor may seem dissatisfying, but ultimately, the need exists. As such, suggested policy recommendations are outlined below to better address the efficiencies and functionality of the LIHTC and HCV programs to meet housing needs.

In approaching policy changes, timeframe is important. Policy recommendations provided in literature and interviews ranged from more politically feasible approaches to long-term shifts in the underlying way the U.S. approaches housing affordability. This research highlights that the use of these two programs is meeting housing needs that the programs are not meeting on their own, but also recognizes this is an arguably inefficient method, using an overlap of federal resources. As is seen by the findings, this inefficiency is both a resource problem and a programmatic one. Interviewees overwhelmingly recognized that the biggest barrier is federal funding, but also understood the limitations of current programmatic regulations. The outlined recommendations both emphasize ways in which the programs can be adjusted on their own to meet housing needs that their joint use is addressing, as well as longer-term suggestions that would shift the way housing affordability is approached.

Based on the findings of this research, policy recommendations related to these programs should aim to bridge the main program goals. The need for physical structures that have adequate

revenue for sustainability and alleviation of cost-burden to renters do not align. Policy recommendations to address these tensions need to better meet the needs of both developers and tenants and as such, recommendations that adjust the programs both separately and jointly can help do that.

7.1 ADMINISTRATIVE STREAMLINING

The first step to better understand the effects of these programs is to implement adequate evaluation processes. This thesis highlights that piecemeal data causes difficulty in properly evaluating the joint use of LIHTC and HCV. The Housing and Economic Recovery Act of 2008 (HERA) established data requirements for state housing finance agencies related to LIHTC projects, but compliance with reporting has not been strong. This showcases the need for more oversight or stronger legislative language to follow through with these requirements. Though the HCV program is administered through PHAs, the program is centralized through HUD, whereas the decentralized nature of LIHTC creates complexities in truly understanding the full scope of the program, evaluating its efficiency, and comprehending the full scale of LIHTC and HCV program overlap. HUD already conducts some tracking and reporting on LIHTC, and through agency rulemaking or congressional action, could better collaborate with state housing finance agencies to keep track of program data. This would likely allow for a more robust, nationwide understanding of LIHTC and the characteristics of LIHTC tenants.

7.2 SERVING EXTREMELY LOW-INCOME HOUSEHOLDS

As this research finds, the use of tenant-based subsidy in LIHTC units happens for various reasons, but some of the main ones include differences in income served, quality and accessibility of units, and using vouchers in tight housing markets. Though this analysis concludes that the joint use of LIHTC and HCV serves housing needs that are difficult to accomplish as standalone programs, it must also be recognized, as research highlights, that the use of both programs showcases a level of inefficiency (Bowling et al., 2018; Fischer, 2018). Research shows that there are adjustments to the programs, both separately and jointly, that help alleviate this.

Some of the main policy recommendations related to LIHTC have to do with incentivizing developers to serve lower-income households. This would support developers in their underwriting needs as well as tenants, who could better access LIHTC units without a voucher and not be cost burdened. Literature and interviews highlight one federal change in particular that would be beneficial to extremely low-income households – a basis boost for serving households at 30% AMI or below, or below the federal poverty line. A basis boost, as described earlier, is an increase in the amount of tax credits received, and this specific proposal calls for a 150% boost. This would incentivize developers receiving tax credits to structure their project to serve households at lower income levels. This proposal is included in the current version of the Build Back Better Act (H.R. 5376) and is also in a standalone bill introduced by Senator Cantwell (S. 1136).

Another change to the LIHTC program alone would also serve the purpose of financial feasibility of development and serving lower-income households. Income averaging is a tool that was passed in 2018 to allow for more mixed-income developments. Developments can serve

households with up to 80% of AMI as long as the average income of tenants in the development is at or below 60% AMI. There have been stalls related to the implementation and use of this provision. The IRS issued a notice of proposed rulemaking in late 2020 related to income averaging and uncertainty related to the rule has postponed its use (E. Cadik, personal communication, February 18, 2022; Shelburne, 2020). The Biden-Harris Administration put finalizing this rule as an item on their Housing Supply Action Plan, recognizing the importance of serving households across different incomes (*President Biden Announces New Actions to Ease the Burden of Housing Costs*, 2022). Though income averaging has limited use since its inception, and little research done on its effect, it is a possible tool to serve extremely low-income households within the LIHTC program rather than relying on layering other subsidies.

Other recommendations related to serving lower-income households works within the context of using the programs jointly, rather than adjusting LIHTC on its own. These suggestions relate to more collaboration between local PHAs and state housing finance agencies in an effort to serve those with lower incomes. These recommendations include adding requirements to serve households with lower income levels in state housing finance agency QAPs and requiring developments to market to lower-income households and in doing so, make households aware of the housing option (Fischer, 2018). This can apply to households with or without vouchers. In order to make voucher holders aware of LIHTC developments, Fischer (2018) recommends states require LIHTC developments to inform all voucher agencies of initial leasing opportunities.

This thesis finds that though LIHTC does serve extremely low-income households, a large percentage of them have additional rental assistance, and research also shows that some households living in LIHTC units can be, and often are cost burdened. Adjustments to LIHTC

can help the program serve lower-income households without additional subsidies or cost-burden. Within the confines of the current program, there are also ways to make the combination of rental assistance more streamlined and accessible.

7.3 SPATIAL CHARACTERISTICS

One item brought up in literature is the tendency for voucher holders in LIHTC units to be in lower-income areas compared to tenants without vouchers. Researchers argue that this exacerbates poverty concentration and issues related to it. The basis boost for developments in Qualified Census Tracts (QCTs) – census tracts where 25% or more of the population live in poverty or where half of the census tract population has income under 60% AMI in the past year – incentivizes affordable housing to be built in areas of higher poverty, contributing to poverty concentration. Researchers discuss how there needs to be an adjustment to this incentive. Though the basis boost for Difficult to Develop Areas (DDAs) attempts to assist development in higher-cost areas, literature and interviewees highlighted the importance of other incentives to steer developments to higher-opportunity areas. These suggestions mainly relate to how state housing finance agencies can incentivize developers through their QAPs and related scoring processes. Changing policies for LIHTC allocation would shift developer priorities in order for them to be competitive in being awarded tax credits (K. McClure, personal communication, February 9, 2022; Williamson et al., 2009).

Research on QAP policies in 21 states found that increased priority for projects in high-opportunity neighborhoods translated to increases in tax credits allocated to projects in those areas and decreases in tax credits allocated to high poverty areas. This study's researchers recognize that it is hard to pinpoint causality and decipher whether developers are changing their

behavior, states just selected projects in those areas, or other factors. Ultimately, however, no matter the causal factor, this research showcases the ability to use QAPs as a tool to steer development, especially related to location (Ellen et al., 2015).

This thesis finds that the use of tenant-based subsidy in LIHTC can exacerbate poverty concentration. Simultaneously, it finds that, especially in tight markets, LIHTC units are important housing options for voucher holders. Given this research on QAPs, could adjustments to them also be used to steer this overlap to markets most in need of using the two programs jointly? Though a stricter policy recommendation, hypothetically states could dictate markets where developers could overlap other subsidies or accept households with tenant-based subsidy and those where they cannot in an effort to streamline the use of this overlap to where it is truly needed.

Additionally, tax credits are currently allocated by population, but some researchers argue that they should be provided based on market need (McClure, 2011). If states do not use their tax credits, they return them to the federal government, incentivizing states to opt to use the resource, possibly in a way that is not needed for certain markets in that state, rather than returning unused credits. This recommendation would get at program inefficiencies and allow for markets most in need of new supply to access tax credits. Population changes influence housing demand and market needs, so this policy suggestion could also incorporate the overlap of these two factors in allocating credits.

7.4 ACCESS TO HOUSING

Policy recommendations to make the HCV program more efficient would also assist in diminishing the overlap. As the findings of this research show, some of the main reasons voucher

holders are accessing LIHTC units has to do with their ability to find units that meet the payment standard and that will actually accept their voucher.

In an effort to address the issue of finding a unit that is accessible at the Fair Market Rent (FMR) payment standard, literature and interviews discussed the benefit of adjusting how the FMR is calculated, using ‘Small Areas’, zip codes, rather than metropolitan areas. This practice, which has been implemented in some localities, allows rents to be more nuanced in places where it changes significantly from neighborhood to neighborhood (Richter et al., 2019; K. Usowski, personal communication, February 25, 2022). Using zip codes allows for more mobility in a metropolitan area and access to higher-opportunity neighborhoods. The current FMR formula can ultimately steer voucher holders to lower-income neighborhoods given the nature of the housing costs related to the payment standard in those places. The Small Area Fair Market Rent (SAFMR) rule is intended to provide access to higher-opportunity areas. Though this rule has been a step toward voucher holders’ ability to access adequate housing in tight markets, research shows that it too may be insufficient to keep up with increasing rents in certain areas (Hess et al., 2021).

Additional support can help those who have accessed a voucher find available housing. Two ways to address the time and difficulty of the process of even finding a unit and ensuring that the landlord will not deny the voucher is through landlord liaisons and mobility counseling. Landlord liaisons are positions within PHAs which work with landlords to build relationships and trust. This position ensures that landlords know the eligibility requirements and criteria related to the voucher program and get a better understanding of who the potential residents with vouchers actually are. Household counseling serves voucher holders and helps them navigate the onerous process of finding an eligible unit in which the landlord will agree to accept the voucher

(K. McClure, personal communication, February 9, 2022; McClure, 2011; Richter et al., 2019). Mobility demonstration programs, like Creating Moves to Opportunity have found success in using mobility counseling to assist voucher holders (Bergman et al., 2020). Similar to the policy recommendation for additional marketing of LIHTC units to voucher holders, counseling and landlord liaison positions could better connect voucher holders to LIHTC units if those are the most appropriate housing options to meet their needs.

Most all interviewees and a number of articles brought up the issue of source of income discrimination. Though various localities and states nationwide have existing source of income discrimination laws, many do not, and discrimination of voucher holders remains a difficult hurdle in finding housing. As outlined in previous sections, over a dozen states and over 50 cities have source-of-income laws, but research estimates that these laws cover only about half of voucher holders nationwide (Wykstra, 2019). A HUD pilot study on voucher acceptance in five cities found that those with source-of-income laws in place had lower denial rates, but discrimination still occurred (Cunningham et al., 2018). The analysis in this research notes that voucher holders may opt to use their voucher in LIHTC units because they are required to take them. It is challenging enough to get access to a voucher in the first place, so recommendations that then make it more accessible to use the voucher as they are intended are imperative.

7.5 LONG-TERM APPROACHES

The below recommendations are more overarching and face numerous barriers in the current political and economic climate. Whereas the previous recommendations aim to work in the existing confines of the programs for them to function more efficiently, these changes get at

the root of inadequate resources and programmatic inadequacies to more holistically target housing needs.

Unrelated to the overlap of subsidy, though arguably pertinent to addressing housing needs, is that the voucher program currently serves only about one fourth of households who are eligible to use it. A few interviewees had one, overarching suggestion for the Housing Choice Voucher program – to make it an entitlement. This would serve two functions. It would provide surety in funding and related stability in not being dependent on the congressional appropriations process. Tied to this reliance on adequate funding, and the intent of an entitlement, the program would be accessible to all households who need it rather than the fraction of those eligible who receive it currently (D. Emmanuel, personal communication, February 16, 2022; McClure, 2021). Though this policy solution has been discussed by the Biden administration and included in legislation introduced in the House, it has not moved forward, likely because of political will and the large price-tag – one estimate puts the cost at \$62 billion annually (“Universal Vouchers,” 2021). It is also worth noting, that even as an entitlement, voucher holders would still face difficulties in finding units that meet the payment standard and accept vouchers, as is highlighted in this research.

One of the main recommendations related to the overlap of the two programs comes from Dr. McClure. In his studies and related policy recommendations, McClure argues that the LIHTC and HCV programs need to be more flexible to address the needs of varied housing markets across the country. McClure’s main policy recommendation is to allow fungibility of the programs, so LIHTC and HCV funding could be more easily interchangeable. This could provide more flexibility to use funds in a way that best addresses housing needs in local markets. This research gives insight on how the one-size-fits all nature of these programs makes it difficult to

address housing needs in diverse housing markets. Some interviewees worried that local politicians would focus efforts on new construction as a more tangible result even when it is not the most pressing need of a community (W. Fischer, personal communication, March 4, 2022). Increased program fungibility should be coupled with oversight, likely federal, to ensure the use is most appropriate. It is important to note that fungibility would be difficult without streamlining and centralizing the two programs. Oversight is challenging and costly for programs within government agencies, let alone piecemeal, decentralized programs, like LIHTC. As such, this policy recommendation would need to assess feasibility of administrative oversight and consolidation.

In practice, fungibility between the two programs would require increased collaboration between numerous entities – HUD, local PHAs, state housing finance agencies, and localities. The first step to making this possible, would likely be through a more centralized administrative process federally. The LIHTC program currently does not have adequate oversight with the decentralized nature of the program through housing finance agencies. Alternately, Housing Choice Vouchers, though administered by PHAs, are centralized through HUD. Streamlining the administration of the two programs, perhaps both under HUD, would allow for additional oversight. Federal rulemaking or legislation would need to be established to create frameworks and criteria as to how fungibility would work. Would vouchers and tax credit allocations be centralized at the state level and provided to local jurisdictions through a competitive process, similar to block grants, or would PHAs remain in control of vouchers and could trade them in for tax credits? Block grants are distributed by formula to states, so hypothetically an allocation of funds that could address both supply and demand side needs would help the localities better match the funds to local needs. It is worth noting that block grants can often elicit critiques about

taking oversight and force away from national objectives (Jaroscak et al., 2020). Ultimately, and what this research finds, is there is a fine line between devolution to localities while simultaneously needing appropriate federal oversight and direction. The nature of the subsidies is so different that if fungibility were to move forward as a policy solution, input from local practitioners and other experts would be imperative to ensure it was feasible.

Ultimately, fungibility aims to address the variety of markets and housing needs across the country. Federal housing policy plays a complicated role in addressing housing needs nationwide while also devolving the responsibility to localities. Though the intent of devolution may seem appropriate for communities to act on their own needs, without adequate resources and efficient oversight from the federal level, localities could have trouble addressing these issues.

7.6 CONCLUSION

The outlined policy recommendations are expansive - some operate in the current context, tweaking the existing programs in a politically palatable way to address inefficiencies and needs. Others, like fungibility and making vouchers an entitlement, require much more buy in and due diligence in order for them to be realized. Ultimately, as with many policies, it is a process of understanding existing resources and choosing between short- and long-term solutions. This research showcases inefficiencies in the status quo and arguably creative solutions to them. Though LIHTC and HCV were not intended to be used together, their combination is serving needs and showcases innovative options to working within the confines of programs that are limited by resources and programmatic guidelines. In addressing national values and truly allowing all households to access adequate, affordable housing options, I would

argue that even with the respective tweaks, these programs face major obstacles to truly meeting housing needs. Future research on policy alternatives would provide needed insight on housing affordability approaches.

Chapter 8. CONCLUSION

The Low-Income Housing Tax Credit and Housing Choice Voucher programs are the two largest federal programs addressing affordable rental housing in the United States. As showcased by the status quo and the history of affordable housing systems, addressing housing needs in this country is a matter of values and priorities. A chasm has and continues to exist in who is cared for and who has access to adequate housing to meet their needs. As interviewees highlighted, so much of addressing this issue is related to political will and resources. There is a tension that exists between housing affordability and the need to keep physical structures somewhat profitable and livable, and this is at the crux of understanding the functionality and overlap of LIHTC and HCV. This research finds that as the housing programs function currently, they serve a complementary role to one another, addressing housing needs that they do not meet as standalone programs. Future research is needed to better understand the prevalence of this phenomenon and how disparity in access to affordable housing can adequately be addressed in the United States.

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APPENDIX A

The below journals were reviewed for pertinent literature.

- Journal of the American Planning Association
- Journal of Planning Education and Research
- Housing and Development Reporter
- Housing and Society
- Housing Policy Debate
- Journal of Affordable Housing and Community Development Law
- Journal of American Real Estate and Urban Economic Association
- Journal of Housing and Community Development
- Journal of Housing Economics
- Journal of Housing Research
- Journal of Planning Literature
- Journal of Real Estate Literature
- Journal of Urban Economics
- Real Estate Law Review
- Real Estate Review
- Tax Credit Advisor

APPENDIX B

Interviewees

Emily Cadik - Executive Director at the Affordable Housing Tax Credit Coalition. Cadik leads the Affordable Housing Tax Credit Coalition and has extensive professional experience in the housing affordability space, including working at HUD.

Dan Emmanuel - Senior Policy Analyst at the National Low-Income Housing Coalition. Emmanuel has been at the National Low-Income Housing Coalition for almost a decade and currently works primarily on issues related to the preservation of LIHTC developments. Prior to joining NLIHC, Emmanuel worked both directly with tenants and in affordable housing development.

Will Fischer - Senior Director for Housing Policy and Research at the Center for Budget and Policy Priorities. Fischer's policy purview ranges on many topics, but Mr. Fischer has done extensive research on LIHTC and HCV.

Dr. Kirk McClure – Professor Emeritus, University of Kansas. McClure has researched these programs extensively and understands, from a national perspective, the way these programs function across markets and how they may or may not be meeting affordable housing needs. McClure has also been privy to and working with the LIHTC program since its creation, giving him a unique perspective on it.

Dr. Kurt Usowski - Deputy Assistant Secretary for Economic Affairs at HUD's Office of Policy Development and Research. Usowski understands the programs, both from a policy evaluation perspective, but importantly, with a focus on the economics of them, a critical area to highlight in this research.

Interview Dates

- Emily Cadik – February 18, 2022
- Dan Emmanuel – February 16, 2022
- Will Fischer – March 4, 2022
- Dr. Kirk McClure – February 9, 2022
- Dr. Kurt Usowski – February 25, 2022

Interview Questions

1. The U.S. is not adequately meeting housing needs for extremely low-income households. Why do you think that is?
2. What factors are causing the use of tenant-based subsidy in LIHTC projects?
 - a. What factors are drawing tenants to LIHTC developments?
 - b. What factors cause tenants to pursue market-rate options instead of LIHTC developments?

3. From a cost perspective, research shows that tenant-based subsidy can serve more households at a lower cost than place-based subsidy. What other factors do you think need to be considered in substituting tenant-based for place-based subsidy for cost-efficiency purposes? How do you see this playing out in practice?
4. Do you think the use of tenant-based subsidy in LIHTC projects is addressing housing needs in a way that the programs cannot do on their own?
 - a. Can the programs be adjusted on their own to meet these needs? If so, how?
 - b. Can the programs be adjusted to work better together? If so, how?
5. In your opinion, are there alternate ways to address these needs, either within existing programs or outside of them, and if so, what would that look like?

