



The impact of the low income housing tax credit program on local schools



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ARTICLE INFO

Article history:

Received 23 March 2011

Available online 31 October 2013

Keywords:

Housing

Education

Low-income housing tax credit

Neighborhood

ABSTRACT

The low-income housing tax credit (LIHTC) program has developed over two million rental homes for low-income households since 1986. The perception of deterioration in school quality has been a main reason for community opposition to LIHTC projects in middle- and upper-income areas. In this paper, we examine the impact of LIHTC projects on the nearby school performance using data on all LIHTC projects and elementary schools in Texas from the 2003–04 through 2008–09 academic years. We employ the longitudinal structure of the data to control for school fixed effects and estimate the relationship between the opening of nearby LIHTC on campus-level standardized test scores and performance ratings. We address the potential selection biases by controlling for preexisting trends in school performance prior to the study period. We find no robust evidence that the opening of LIHTC units negatively impacts the performance of nearby elementary schools.

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1. Introduction

In high-cost metropolitan areas, it is challenging for low-income working families to find housing in decent neighborhoods. The conditions they live in are detrimental not only to the occupants, but also to their neighbors and surrounding neighborhood. In response, several public policy instruments have been implemented, including housing choice vouchers, inclusionary zoning, tax breaks for low-income housing developments and local affordable housing mandates or offsets. The low-income housing tax credit (LIHTC) program, our interest, provides incentives for private and public partnership to provide quality multifamily rental units that are available at below-market-rate rents for low-income households.

Previous studies have suggested that LIHTC projects and school performance both affect nearby property values, but very few have considered any direct relationships between

subsidized units and school outcomes. Studies show that the developments of LIHTC housing are not likely to cause significant declines in neighboring property values and may even have positive impacts (Ellen et al., 2005; Ezzet-Lofstrom and Murdoch, 2007). Negative impacts exist for some projects under certain circumstances, but they tend to be small and can be reduced if the units are well designed and managed, compatible with the host neighborhood and not concentrated among other subsidized housing (Nguyen, 2005). Deng (2009) looked at eight socioeconomic indicators of neighborhoods hosting LIHTC projects.¹ She found that most of the LIHTC neighborhoods experienced positive changes when compared to the similar neighborhoods without LIHTC projects. Specifically, LIHTC

¹ The eight indicators include: (1) unemployment rate, (2) poverty rate, (3) percentage of households receiving public assistance, (4) median household income as a percentage of metropolitan median household income, (5) median gross rent as a percentage of metropolitan median gross rent, (6) median housing value as a percentage of metropolitan median housing value, (7) number of units built in the last 10 years, and (8) single-family mortgage approval rate.

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properties invested in high-poverty neighborhoods are most likely to generate positive impacts, while LIHTC invested in middle-class neighborhoods are least likely to do so. The effects are more mixed in “working-class” neighborhoods. Recently, [Chellman et al. \(2011\)](#) found that the completion of subsidized owner occupied housing in New York City was positively associated with an increase in standardized scores at local schools while the completion of subsidized rental housing had little or no association with the school performance.

How LIHTC developments affect neighborhoods and schools may depend on the local conditions and the type of development. If LIHTC projects rehabilitate existing housing, they are likely to improve the existing neighborhood conditions by removing some of the blight in deteriorating areas in addition to improving the living conditions of the project occupants ([Santiago et al., 2001](#)).² However, rehabilitated properties tend to be in neighborhoods with limited education and job opportunities. In Texas, nearly two thirds of the LIHTC projects produce new units. If new units are located in segregated low-income neighborhoods, even though rents are subsidized, tenants may still suffer from the social problems associated with concentrated poverty. If new units are built in higher-income neighborhoods, existing homeowners may exhibit a “not-in-my-backyard” (NIMBY) attitude, due to their perceptions about the designs and quality of the multifamily properties, potential changes in neighborhood demographics, decline in open space, decreases in public services and safety and impacts on property values ([Downs, 1982](#); [Finkel et al., 1996](#); [Nguyen, 2005](#); [Pendall, 1999](#); [Turner et al., 2000](#)). Moreover, parents in the receiving neighborhoods may be concerned that their local public schools will become overcrowded and that low-income students from the LIHTC units will exert negative peer influences. These perceptions can deter the construction of new low-income housing or drive existing residents to “flee” the neighborhoods and local schools, causing a downward spiral in the school quality. But are these perceptions real?

The purpose of this paper is to investigate the link between housing projects built through the LIHTC program and neighborhood public school performance. We compile a panel dataset on approximately 4000 elementary schools in Texas by spatially merging the almost 2000 LIHTC properties to nearby elementary schools from the 2003–04 to 2008–09 academic years. The dataset facilitates estimations of the relationship between changes in school academic performance and changes in the numbers of nearby LIHTC units in various contexts. We discuss how the impacts vary for LIHTC projects located in neighborhoods with different income levels and whether the projects are new construction or rehabilitations. We do not find evidence to suggest overall negative consequences on local elementary schools from LIHTC units.

The rest of the paper is organized as follows. In the next section, we provide an overview of the LIHTC program with a focus on the state of Texas. Then, we discuss the mecha-

nisms through which LIHTC units can potentially affect local schools. In the fourth section, we describe the data and main measures of neighborhood and school quality. The fifth section contains the empirical results followed by discussions and policy implications.

2. Overview of low-income housing tax credit program

The LIHTC program was created under the Tax Reform Act of 1986 to incentivize private developers and non-profit entities to build rental housing for low-income households. The program gives a dollar-for-dollar federal tax credit to developers in return for project equity. Investors, such as financial institutions, purchase the tax credits to lower their federal tax liability over a 10-year period. The typical amount of tax-credit equity raised in a 9% tax-credit transaction is between 45% and 75% of the development costs.³ With the tax benefits, the private developers and non-profit entities typically need to raise only a fraction of the capital for the projects.

The rents for LIHTC units that are occupied by qualified low-income households are required to be substantially lower than market rates. To be eligible for the tax credits, either 20% of the units must be reserved for households with initial qualifying incomes at or below 50% area median income (AMI), or 40% of units must go to households with initial qualifying incomes at or below 60% AMI. Federal law requires that the rents and incomes remain restricted for 15 years; but some states, such as Texas, apply land-use agreements in order to retain the units in the affordable housing stock for at least 30 years.⁴

The LIHTC is the largest federal rental production subsidy program, producing nearly 2.5 million rental units from 1986 to 2009.⁵ To maximize tax credit dollars, most projects designate all of their units to serve residents with income at or below 60% of AMI. LIHTC projects typically have high occupancy rates—95% for larger properties and 97% for smaller ones and relatively low foreclosure rates—average annualized 0.08% through 2006 ([Ernst and Young, 2009](#)).⁶

Competition for the tax credits was fierce among developers and states when the economy was growing. The incentives for financial institutions to purchase tax credits reach beyond stable yields and offsetting profits. An investment in a LIHTC state or regional fund can also receive Community Reinvestment Act (CRA) consideration for both a community development loan and community develop-

² Rehabilitation projects may produce new units because the properties may be underutilized or unlivable before rehabilitation.

³ Another type of LIHTC offers tax credit at 4%. It is not as competitive as the 9% credit. Projects financed through tax-exempt private investor bond are eligible for the 4% credit. Many projects financed with a 4% tax credit involve smaller development costs than new constructions, such as rehabilitation and preservation projects.

⁴ Owners can exit the program only if they can't find a buyer of the property at the qualified contract price after making a request to the state allocating agency before the expiration of the initial compliance period.

⁵ The total drops to nearly two million if bond transactions are not included.

⁶ The annualized foreclosure rates elevated during the recession, and were 0.04%, 0.14% and 0.45% for 2007, 2008 and 2009, respectively ([Ernst and Young, 2011](#)).

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