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Report to the Chairman, Joint Committee on Taxation

February 1986

RENTAL HOUSING

Costs and Benefits of Financing With Tax-Exempt Bonds

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

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February 10, 1986

The Honorable Daniel Rostenkowski
Chairman, Joint Committee on Taxation

Dear Mr. Chairman:

As requested in your Committee's letter of August 8, 1984, this report provides information on the use of tax-exempt bonds in financing the construction and rehabilitation of multifamily rental housing and focuses on (1) how much this program costs the federal government, (2) whether projects financed with tax-exempt bonds are complying with occupancy requirements for low- and moderate-income households, and (3) who benefits from the program and how. On June 21, 1985, we presented our preliminary findings on these matters in testimony before the Subcommittee on Oversight, House Committee on Ways and Means.

This report contains a recommendation to the Secretary of the Treasury and matters for congressional consideration that, we believe, would better assure that program benefits accrue to low- and moderate-income households.

As agreed with your office, we are sending copies of this report to the appropriate House and Senate committees; the Secretary of Housing and Urban Development; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others on request.

Sincerely yours,

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

Executive Summary

Growing amounts of tax revenue are being lost because of increased use of tax-exempt bonds as a method of financing construction of rental housing. Because of concern that the tax exemption is costly and may not be an efficient way to subsidize low- or moderate-income housing, the administration has recommended that it be eliminated. At the request of the Joint Committee on Taxation, GAO studied the use of tax-exempt bonds for financing multifamily rental housing, focusing on

- the cost of the program to the federal government,
- whether projects are complying with minimum occupancy requirements for low- and moderate-income tenants, and
- who benefits from the program and how.

Background

Tax-exempt bonds have been available to finance the construction or rehabilitation of multifamily rental housing since the 1930's. As interest rates have climbed in recent years, use of these bonds has increased. Tax-exempt bonds provide developers lower cost financing because they can be marketed at lower interest rates since bond investors pay no federal income tax on interest received on the bonds. State and local housing agencies issued over $10 billion of these bonds in 1983 and 1984. (See pp. 10-12.)

In 1980, the Congress added a requirement that the bonds achieve a greater public purpose by targeting 20 percent of the units in each bond-financed rental project for occupancy by low- or moderate-income households—defined as those earning no more than 80 percent of area median income. (See p. 10.)

GAO visited 19 housing agencies in 14 states and 54 rental projects financed with tax-exempt bonds. To provide a national perspective on the program, GAO judgmentally selected these agencies and projects on the basis of the dollar volume of the bonds issued, their geographic location, and committee interest. (See p. 14.)

To supplement information obtained in these visits, questionnaires were sent to all housing agencies identified as having issued bonds in 1983. (See app. II.)

Results in Brief

GAO estimates that the federal government will forego $2.3 billion (in 1985 dollars) in tax revenue over the life of the bonds issued in 1983 and 1984. This estimate is based on an economic model that describes how investors typically adjust their portfolios to accommodate an increased supply of tax-exempt bonds. (See p. 36.)

The rental housing projects built with tax-exempt bonds that GAO reviewed are generally operating in compliance with the requirement that 20 percent of their units be occupied by low- or moderate-income households. However, under the program, households can qualify as low- or moderate-income households with incomes substantially higher than the average renter. (See pp. 19-23.)

In addition to investors' receiving benefits, bond-financing intermediaries receive various fees, and developers receive about a 3-percentage point reduction in interest rates from what they would have been charged through conventional financing. However, without data on the profitability of alternative developer investments, it was not possible for GAO to determine the extent to which lower interest rates increased developers' profits or the amount that was passed on to project tenants through reduced rents. GAO did find, however, that one-third of the projects it visited reduced rents for some low- or moderate-income households. (See pp. 26, 38, 39, 42, and 43.)

Principal Findings

Tenant Profiles

With only two exceptions, the projects GAO visited had at least 20 percent of their units occupied by low- or moderate-income tenants. GAO noted, however, that the incomes of these tenants normally exceeded the national average renter income. This occurred for two reasons. First, in setting income ceilings for low- or moderate-income households, 12 of the 19 housing authorities visited did not require an adjustment for the size of the household. If housing authorities required an adjustment for family size, the maximum qualifying income for single-person households at one site GAO visited would be reduced from $22,640 to $15,850. Data GAO collected on almost 8,000 tenants show that 12 of 48 projects would not have met the 20-percent requirement if qualifying incomes had been adjusted to reflect size of households. While such an adjustment was required by legislation in 1980, subsequent amendments and Department of the Treasury regulations are unclear as to whether this adjustment is still required. In November 1985, Treasury issued proposed regulations that would require family size adjustments in future projects. (See pp. 20-23 and 35.)

Second, the median income figure used to determine eligibility is the median income of all households—both renters and homeowners. Because homeowners, on average, earn twice as much as renters, qualifying incomes for low- and moderate-income households are generally higher than average renters' incomes. For example, in one area visited, qualifying income was $20,250, whereas the average income of a renter in that area was $13,266. For the projects visited, GAO found that the average income for all tenants was $24,157 while low- and moderate-income tenants' incomes averaged $15,697. Nationwide, the average renter income was $14,000. (See pp. 18-20.)

Benefits to Tenants

GAO found that in one-third of the projects visited, rents for some low- and moderate-income households were reduced from $10 to $200 per month, either to comply with local requirements or to attract enough low- and moderate-income tenants to meet the 20-percent requirement. The remaining projects faced no such requirement and were able to attract qualifying tenants without reducing rents. (See pp. 25 and 26.)

In addition, all renters—not just low- and moderate-income households—would benefit from the program if market rents fall because of an increase in the supply of rental housing. According to housing economics literature, each 1-percent increase in supply is likely to cause a 1-percent reduction in market rents. While GAO estimates that 25 percent of the new rental housing starts in 1983 and 1984 were financed with tax-exempt bonds, all rental units built with bonds since 1975 represent only about 2 percent of the total rental housing supply. Furthermore, some of these units would undoubtedly have been built without tax-exempt financing. Therefore, the program probably has resulted in no more than a 2-percent reduction in average national rent levels. (See pp. 43 and 46.)

Recommendations

GAO recommends that the Secretary of the Treasury clarify implementing regulations to require that income used in qualifying households as low- or moderate-income be adjusted to take household size into account. (See p. 34.)

Matters for Congressional Consideration

If the Congress wants to continue the tax-exempt bond program and if it wishes to target the program to households whose incomes are lower than those currently served, a number of options are available. Any tightening of requirements must be weighed against possible impacts on developer participation. Among the actions that the Congress may wish to explore are

- lowering the percentage of median income allowed for qualifying households and
- restricting the amount of rent that can be charged to qualifying households.

Other possible actions are discussed on page 35.

Agency Comments

Treasury officials agreed with GAO's recommendation regarding household size adjustments. Moreover, in November 1985, Treasury issued proposed regulations to amend the Internal Revenue Code to require that such an adjustment be made after December 31, 1985, when qualifying households as low or moderate income. (See p. 35.)

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Abbreviations

GAO	General Accounting Office
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service

Introduction

Rental housing is the source of shelter for 27.5 million American families—about one-third of all families—and the only source for most low-income individuals. Most individuals with incomes below $10,000 rent rather than own. Over the years, various federal programs have attempted to help provide decent, affordable rental housing through such means as rental assistance and production subsidies. One such method is the use of tax-exempt bonds to finance construction or rehabilitation of multifamily rental housing.

Use of Tax-Exempt Bonds to Finance Rental Housing

Before 1968, section 103 of the Internal Revenue Code exempted interest on state and local government bonds from federal income taxes, regardless of how the state or locality used the bonds' proceeds. State and local governments have issued tax-exempt industrial development bonds for the benefit of private industries since the 1930's, but it was not until the late 1960's that these bonds were issued in any great quantity. In 1968, members of Congress expressed concern both about the large federal revenue losses associated with the growing volume of industrial development bonds as well as the possibility that the volume of these bonds would raise interest rates on tax-exempt bonds issued for more traditional public purposes, such as roads and schools. In response to these concerns, the Congress amended section 103 to provide that the interest on these bonds be taxable unless issued for certain specified purposes, one of which was construction or rehabilitation of rental property.

In 1980, the law was again amended, requiring for the first time that section 103 bonds be used as a mechanism for providing housing for lower income individuals. The 1980 amendment specified that the bonds were to be used for rental projects where at least 20 percent (15 percent in targeted areas[1]) of the units would be occupied by low- or moderate-income individuals—those earning no more than 80 percent of an area's median income. According to congressional committee reports, the Congress added the low- and moderate-income requirement to better assure that the program would serve lower income households and to encourage mixed-income projects.

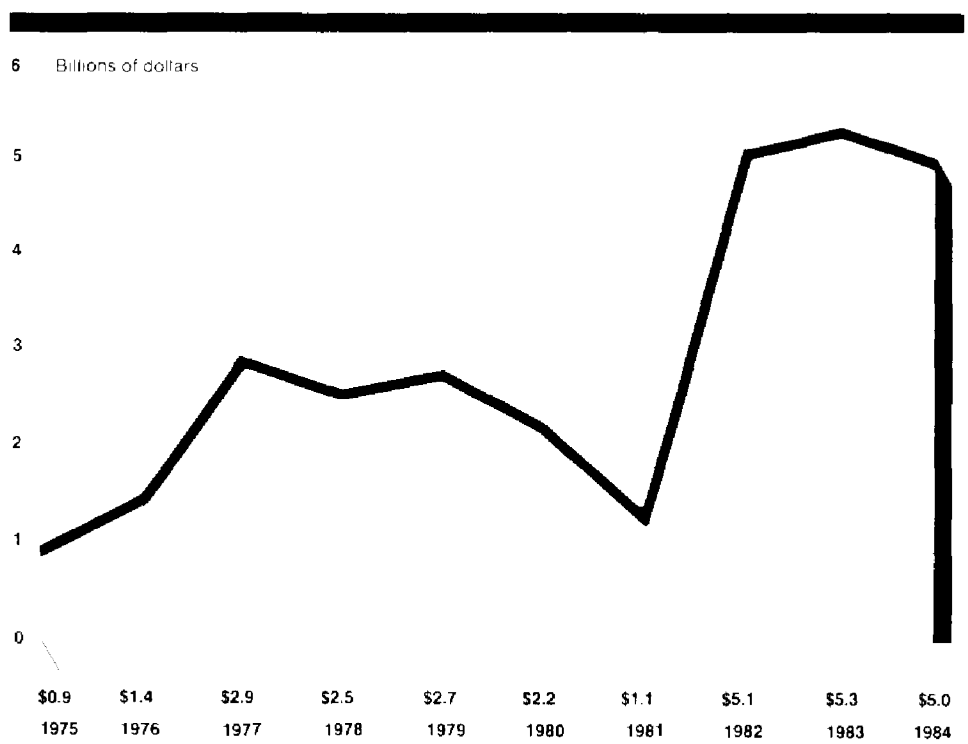
[1]An area that is either (1) a census tract in which 70 percent or more of the families have incomes that are 80 percent or less of the applicable statewide median family income or (2) an area of chronic economic distress as determined under the criteria established for mortgage subsidy bonds. All of the rental projects included in our review required that at least 20 percent of their units be occupied by low- or moderate-income households.

Amendments in 1982 attempted to improve bond administration by requiring that bonds be approved by an elected public official, that public hearings be held on proposed bond issues, and that information on bond issues be reported to the Internal Revenue Service. These amendments also required that bonds be issued in registered form (e.g., including purchaser's name) so that holders of the bonds could be notified if the tenant income requirement for tax exemption was not being met, which could result in the loss of the tax-exempt status.

Growth in the Use of Bonds to Finance Rental Housing

During the past decade, the use of tax-exempt bonds to finance rental housing has been erratic, as illustrated by figure 1.1.

Figure 1.1: Annual Volume of Tax-Exempt Multifamily Housing Bonds, 1975-84



As figure 1.1 shows, the annual volume of bonds increased sharply between 1975 and 1977—from $900 million to $2.9 billion—and then declined to $2.2 billion in 1980. In the following year, the volume fell by half to $1.1 billion. It surged to $5.1 billion in 1982 and then stabilized near that level for the next 2 years.

The growth of tax-exempt bonds for multifamily rental projects can be attributed to two primary factors. First, as interest rates rose in the late 1970's, developers sought lower cost financing and chose tax-exempt bonds because of their lower interest rates.

Second, the dramatic changes between 1980 and 1982 were likely influenced by the anticipation and enactment of the 1981 accelerated cost recovery system, which greatly liberalized depreciation rules for rental housing. During 1980 and 1981, developers postponed decisions to invest in rental housing until the more favorable depreciation rules became effective.

Procedure for Issuing Tax-Exempt Bonds for Rental Housing

Step No. 1: Housing Agency Gets Approval From State or Local Governing Body to Issue Bonds

The starting point for issuing tax-exempt bonds for rental housing is the state or local housing agency. A developer approaches the housing agency with a proposal for a rental housing project within the agency's jurisdiction. If the agency approves the project, it then presents a bond proposal to its governing body for authorization.

Step No. 2: Housing Agency Retains Legal Counsel to Develop a Prospectus

Once the bonds are authorized, the housing agency retains a bond counsel to prepare the legal documents associated with bond issuance. Among the most important documents is the prospectus, which describes the terms and conditions of the bonds to potential investors. Bond counsels also assure that the bonds meet the legal requirements of local laws and regulations, the state constitution, federal laws and regulations, and judicial opinions. In addition, the counsel certifies that the interest paid to investors is tax-exempt according to federal laws and regulations.

Step No. 3: Underwriters Are Hired to Market the Bond Issues for the Agency

After purchasing the bonds from the housing agency, underwriters—usually nationwide brokerage firms—either sell the bonds to other securities dealers or sell them directly to investors. Dealers market the tax-exempt bonds to investors—generally banks, savings and loan associations, insurance companies, and individuals.

Step No. 4: Trustees Are Named to Administer Bond Issues for Housing Agencies

The housing agency deposits the bond proceeds in a trust account at a bank or savings and loan association. This financial institution normally acts as trustee for the housing agency and is responsible for administering the payment of principal and interest to the registered holders of the bonds.

Step No. 5: Trustees or Others Provide Loans to Developers

The trustee, another bank or savings and loan association, or the housing agency lends the funds to developers of rental housing projects. Loan repayment is usually guaranteed by a private company or through federal insurance programs.

Congressional Interest

Revenue losses from tax-exempt bonds at a time of mounting federal budget deficits and concern that tax exemption may not be an efficient way to subsidize low- and moderate-income housing have brought the tax-exempt bond program under close scrutiny by both the administration and the Congress. In fact, in response to these concerns, the administration and some members of Congress have already recommended eliminating the tax exemption on state and local bonds used for private purposes, such as industrial development bonds for rental housing. Those members of Congress opposed to plans to eliminate the tax-exemption on private-purpose bonds recognize the need to assure that these bonds serve a significant public purpose.

The Joint Committee on Taxation, in a letter dated August 8, 1984, requested our assistance in answering several questions relating to whether tax-exempt bonds are an efficient method for making more or better rental housing available to low- or moderate-income individuals. On June 21, 1985, we testified before the Subcommittee on Oversight, House Committee on Ways and Means, with the preliminary results of our review.

Our analysis did not specifically address the administration's proposal to eliminate the tax exemption for multifamily rental housing. To do so would require additional analysis of the benefits and costs of tax-exempt bonds relative to other tax expenditures, as well as a comparison of alternative mechanisms for assisting the rental housing market. However, this report does provide information on the costs and structure of tax-exempt bonds issued for multifamily housing which can assist the Congress in its deliberations on the results of the proposed tax reforms. In the event that the Congress decides to retain the current tax exemption for rental housing, the report provides matters for congressional consideration on how it can be changed to more closely target benefits to low- and moderate-income renters.

Objectives, Scope, and Methodology

The Joint Committee asked several questions about the tax-exempt bond program's costs to federal, state, and local governments; the benefits received by parties to the bond issues; and the impact of bonds on the rental housing supply. Another area of major concern to the Committee was the extent to which low- and moderate-income persons were benefiting from the program. Finally, the Committee asked several questions relating to the characteristics of rental projects financed with the bonds and the adequacy of the management of program requirements. In subsequent discussions with the Committee's staff, they expressed interest in ways the program could better serve low- and moderate-income households.

To obtain information relating to the Committee's concerns, we visited 19 housing agencies and 54 of the projects that they financed. In judgmentally selecting agencies to visit, we took into consideration the geographic location of the agencies and the dollar amount and number of projects that they financed. We selected projects that were not authorized to provide tenants rental subsidies under the Department of Housing and Urban Development's (HUD's) section 8 rental assistance program.[2] Eliminating section 8 projects enabled us to better isolate the impact of tax-exempt financing on low- and moderate-income individuals. We were able to obtain income and household size information on 7,887 households including higher income households and those designated as low- and moderate-income from 48 of these projects. We also obtained Internal Revenue Service (IRS) and Public Securities Association municipal bond records to determine the volume of the tax-exempt bonds issued in 1983 and 1984 and to estimate their cost to the federal government in lost tax revenue.

[2]One of HUD's primary programs for assisting low-income households. See chapter 2 for a further discussion of this program.

To supplement these data, we sent questionnaires to the 230 housing agencies that reported to the IRS that they issued tax-exempt bonds in 1983 and for whom we could obtain valid addresses. At the time of our selection, 1983 data were the most current information available. The 230 housing agencies were responsible for $4.9 billion (92 percent) of the $5.3 billion in bond activity in 1983. We received reponses from 164 of the agencies, which represented 58 percent ($3.1 billion) of the total bond activity in 1983. A copy of the questionnaire summarizing answers from the 164 agencies that responded is attached as appendix II.

We performed our work in accordance with generally accepted government auditing standards. The views of directly responsible Treasury officials were sought during the course of our work and are incorporated in the report where appropriate. In accordance with wishes of the Committee, we did not request HUD or state and local housing authorities to review and comment officially on a draft of this report. More detailed information about the objectives, scope, and methodology of our review is available in appendix III.

Tax-Exempt Bonds Can Better Serve Lower Income Renters

Projects that we reviewed that were financed with tax-exempt bonds generally had the required 20 percent of low-and moderate-income households. Nevertheless, unless these households are charged reduced rents, they may not be receiving any direct benefit from the bond financing. Changes can be made to the program to better assure that benefits accrue to low- and moderate-income households.

Tax-exempt bonds are designed to stimulate multifamily rental housing production and achieve a greater public purpose by requiring that at least 20 percent (or 15 percent in targeted areas) of units be occupied by low- or moderate-income individuals.[1] We found, however, that the incomes of households that qualify as low or moderate are generally no lower than those of the typical renter nationwide. On the other hand, the incomes of those households occupying the remaining units far exceed those of the typical renter. The use of bonds, while complying with the law, finances housing occupied by renters with average and above-average incomes and, as discussed in chapter 3, this occurs at a considerable cost to the federal government.

Above-average income renters qualify as "low and moderate income" primarily for two reasons. First, using 80 percent of an area's median family income to determine program eligibility results in a high qualifying ceiling. As defined by HUD, median family income includes homeowners as well as renters. Because homeowner incomes are, on average, twice those of renters, this tends to establish a project ceiling that is substantially higher than the average renter income. Second, ambiguity exists in both the authorizing legislation and the implementing Department of the Treasury regulations; neither makes clear whether a household's income should be adjusted for family size in determining whether it qualifies as low or moderate income. In the absence of clear guidance, most housing agencies are not requiring such adjustments.

Several housing agencies have gone beyond federal requirements and have instituted actions that result in a program that better serves lower income households. If the Congress wants to better target benefits to low- and moderate-income households, we believe that the following actions would help: (1) requiring household size adjustments, (2) targeting the program to households with even lower incomes, (3) increasing the percentage of units targeted to lower income households, (4) reducing the rents these households pay, (5) recertifying tenant incomes, and

[1]While federal regulations speak of low- or moderate-income individuals, the intent is that the incomes of all household members be considered.

(6) considering households on assisted housing waiting lists when renting units.

We recognize that any across-the-board tightening of targeting requirements has the potential to diminish the program's attractiveness to developers, which could reduce the number of housing units built under the program. But, because housing markets and investment opportunities differ across the country, it is not possible to identify the precise point at which introducing more stringent criteria would decrease the number of units developers are willing to build or rehabilitate using tax-exempt bond financing. Given the economic costs of the program, the Congress may wish to consider the question of whether it wants the tax-exempt bond program to better serve low- and moderate-income households and, if so, by how much.

Higher Income Renters Live in Bond-Financed Projects

Forty-eight of the 54 bond-financed projects we visited provided us with both household size and income data on 7,887 tenants. These data showed that, on average, these households had higher incomes than did the general renter population. Even the average low- and moderate-income households in these projects had incomes similar to those of the average renter. In addition, tax-exempt bond-financed units are generally rented by younger people with smaller families than units found in the overall rental market. We found that almost half (45 percent) of the households of bond-financed projects were one-person households, only 16 percent had three or more people living in a unit, and almost half (47 percent) were headed by a person under 28 years old.

We also compared the characteristics of tenants of 48 bond-financed projects with tenants of HUD's section 8 program because (1) the section 8 program is the major means of providing federally subsidized housing to low-income households and (2) the bond program's enabling legislation requires that "low and moderate income" be defined in a manner consistent with the section 8 program. We found that the low- and moderate-income households living in bond-financed projects have incomes that average about twice those of section 8 tenants—$15,000 compared with $7,000. This is not surprising since, as will be discussed later, the section 8 program provides a greater federal subsidy to tenants and has more restrictive requirements.

Table 2.1 compares income and other characteristics of different renter populations.

Table 2.1: Characteristics of Renters in 48 Bond-Financed Projects Compared With Other Renters

	48 bond-financed projects			
	All renters	Low- and moderate-income renters	All renters nationwide	HUD section 8 renters
Average income	$24,157	$15,697	$14,000	$7,000
Average age of household head	32	31	41	50
Average family size	1.8	1.8	2.4	3.1

One important reason for the income variation between all households in projects financed with tax-exempt bonds and other renters nationwide is that about 75 percent of the projects financed with tax-exempt bonds are new construction, which is generally at the top of the quality and price scale. Thus, households in projects financed with tax-exempt bonds must be able to afford the typically high market rent of new apartments. As the table shows, the average income of all households living in the projects we visited was $24,157, or 73 percent above the average income of renters nationwide.

Differences in program structures help explain the large difference in average incomes of the low- and moderate-income households living in bond-financed and section 8 projects. Table 2.2 summarizes some key differences between the programs.

Table 2.2: Comparison of Key Provisions of Tax-Exempt Bond and Section 8 Programs

Program provision	Tax-exempt bond program	Section 8 program
Qualifying income ceiling	80 percent of median income	50 percent of median income
Family-size adjustment required	Unclear	Yes
Rents subsidized (renters pay only 30 percent of income on rent)	No	Yes
Annual income recertification required	No	Yes

The lower qualifying income ceiling for section 8 participants results in a program that is better targeted to lower income households. Eligibility for assistance under section 8 is generally limited to households whose incomes do not exceed 50 percent of the median income for the particular area of residence. For units that became available for occupancy on or after October 1, 1981, 95 percent of households in assisted units must meet this criterion, while the remaining 5 percent may have incomes up to 80 percent of the area's median. The differences in how the two programs handle family-size adjustment, income recertification, and subsidies all contribute to a clear difference in incomes of the populations taking advantage of these programs.

Why Above-Average Income Renters Qualify for Low- or Moderate-Income Rental Units

Above-average income renters qualify as "low or moderate income" under the tax-exempt bond program primarily for two reasons. First, the federal requirement that defines a low- or moderate-income household as earning no more than 80 percent of area median income results in an income ceiling that is relatively high, particularly when compared with the average renter nationwide. Second, federal legislation and Treasury regulations do not specifically state that a household's income should be adjusted for household size.

Qualifying Income Ceiling Is Relatively High

Federal law defines low- and moderate-income households, for purposes of the tax-exempt bond program, as those earning no more than 80 percent of area median income. As defined, an area's median income includes homeowners as well as renters within a standard metropolitan area. Because homeowner incomes are typically twice those of renters, this tends to establish a project ceiling that is substantially higher than the average renter income. Using 1983 data, table 2.3 compares the incomes that qualified a renter in the areas we visited with the incomes of the average renter in those areas.

Table 2.3: Qualifying Incomes Compared With Renter Incomes, 1983

Area	Household median income	Qualifying income (80 percent)	Renter median income	Qualifying income as a percentage of renter median income
Minneapolis, Minn.	$32,813	$26,250	$13,826	190
St. Louis, Mo.	29,813	23,850	13,576	176
Flint, Mich.	28,000	22,400	12,904	174
Denver, Colo.	31,625	25,300	15,282	166
Hartford, Conn.	30,625	24,500	15,331	160
Raleigh, N.C.	27,400	21,920	14,008	156
Los Angeles, Calif.	28,813	23,050	14,946	154
Norfolk, Va.	25,313	20,250	13,266	153
Washington, D.C.	36,600	29,280	19,587	149
Detroit, Mich.	28,000	22,400	15,158	148
Phoenix, Ariz.	26,688	21,350	14,402	148
Atlanta/Marietta, Ga.	28,300	22,640	15,764	144
San Antonio, Tex.	23,625	18,900	13,331	144
Orlando, Fla.	25,100	20,080	14,172	142
Gainesville, Ga.	23,100	18,480	13,545	136
Dallas, Tex.	30,188	24,150	17,829	135

Inconsistent Interpretations of Family-Size Adjustment Requirement in Determining Household Income

Since neither the law nor implementing Treasury regulations specifically state that household incomes should be adjusted for family size in determining low- and moderate-income eligibility, some housing agencies, bond counsels, and developers require such adjustments, while others do not. These inconsistent interpretations not only have a significant impact on the number and percentage of households meeting the low- and moderate-income definition but also on whether individual projects are in compliance with congressional intent.

In 1980, section 103(b)(4)(A) of the Internal Revenue Code was amended to require for the first time that tax-exempt bonds be used to provide housing for lower income individuals. The 1980 amendment specified that the bonds were to be used for rental projects where at least 20 percent (or 15 percent in targeted areas) of the units would be occupied by low- and moderate-income individuals.

The definition of "low or moderate income" was to be determined by the Secretary of the Treasury in a manner consistent with the section 8 program. At the time, HUD considered persons eligible for section 8 if their adjusted income did not exceed 80 percent of the median income for their respective area. HUD determines median incomes for areas on the basis of families of four and then adjusts these incomes for larger and smaller families. The percentage of area median income that qualifies different size families is shown in table 2.4.

Table 2.4: Qualifying Percentage of Area Median Income Based on Family Size

Household size	1	2	3	4	5	6	7
Percentage of area median income required	0.56	0.64	0.72	0.80	0.88	0.96	1.04

The House report on the 1980 legislation mandating the low- and moderate-income requirements stated that the determination of an area's median income should include adjustments for larger and smaller families, as required under the HUD section 8 program. Uncertainty arose regarding the family-size adjustment in the following year when the Congress amended the section 8 program to require that 50 percent, rather than 80 percent, of an area's median income be the threshold for qualification under that program. Because the legislation and implementing Treasury regulations required that the determination of low and moderate income be made in a manner consistent with the section 8 program, there was concern in the housing industry that this change to 50 percent of median income for the section 8 program would also become a requirement for tax-exempt bonds.

To avoid that result, the Congress, in the Tax Equity and Fiscal Responsibility Act of 1982, amended the legislation to read as follows:

"Individuals of low and moderate income shall be determined by the Secretary in a manner consistent with the determinations of lower income families under section 8 of the United States Housing Act of 1937 . . . except that the percentage of median income which qualifies as low or moderate income shall be 80 percent." [Emphasis added.]

Treasury subsequently made final its regulations using basically the same language as the legislation.

On June 21, 1985, a municipal bond attorney testified before the Subcommittee on Oversight, House Committee on Ways and Means, that the Treasury regulations do not require adjustments based on smaller and larger families. The attorney pointed out, however, that while most developers and bond counsel believe that adjustments for family size are not required, some have been concerned that the intention of the 1982 amendments was simply to maintain the 80-percent-of-median-income criterion, and not to eliminate adjustments for family size. They view the lack of clear reference to family-size adjustments as merely an oversight.

A Treasury official who also testified at the June 21 hearings agreed that Treasury regulations do not make clear that median income is to be determined by reference to the HUD adjustments for family size. According to this official, Treasury planned to issue revisions to these regulations to clarify that this adjustment must be made. Treasury proposed this revision in November 1985.

In practice, most housing agencies are not making this adjustment. In 12 of the 19 housing agencies we visited, the low- or moderate-income eligibility criterion was the same for one-, two-, and three-person households as for a family of four. In some cases, agencies' counsel gave legal opinions that family-size adjustments were not necessary but, more often, the issue of whether to adjust for family size simply never surfaced.

Six of the remaining seven housing agencies made income adjustments on the basis of family size either because they interpreted the law and Treasury regulations to require this adjustment or because they wanted to "achieve a greater public purpose" by better targeting their programs to lower income households. The remaining agency made family-size adjustments because it operated its tax-exempt bond program in conjunction with HUD's section 8 program, which requires such adjustments.

By not requiring these adjustments, a higher percentage of tenants met the low- and moderate-income criterion, and project management generally had no problem meeting the federal requirement that at least 20 percent of the project units be occupied by low- or moderate-income households. In our survey, 56 percent of the households met the definition of low and moderate income, whereas only 35 percent would have met the definition if family-size adjustments were clearly required, in a manner consistent with the section 8 program.

On a project basis, 2 of the 48 projects for which we had both household-size and income data did not meet the low- or moderate-income eligibility requirement, even without making adjustments for family size. After bringing this matter to the attention of the project managers, we were advised it was corrected. (See ch. 4.) An additional 10 projects would not have met the eligibility requirement, as table 2.5 shows, if they had been required to adjust for family size.

Table 2.5: Percentage of Low- or Moderate-Income Households Per Project With and Without Adjusting for Family Size

Project	Unadjusted	Adjusted
Packwood East, Charlotte, N.C.	47	15
Summit Station, Marietta, Ga.	42	13
Winter Creek, Dorville, Ga.	37	12
Wood Knoll, Marietta, Ga.	37	16
Symphony Place, Minneapolis, Minn.	32	19
West Wind, Orlando, Fla.	32	10
Post Brook, Decatur, Ga.	31	2
Wood Glen, Marietta, Ga	31	12
Chimney Trace, Stone Mountain, Ga.	27	10
Summerwood, Clarkston, Ga.	24	6

Post Brook provides a clear example of the significance of not adjusting for family size. In this 130-unit project, only three households (2 percent), rather than 40 households (31 percent), would be considered low or moderate income after family size is taken into account. Had adjustments for family size been required, the qualifying income for single-person households in this project would have been reduced from $22,640 to $15,848.

How to Better Target Program to Low- or Moderate-Income Renters

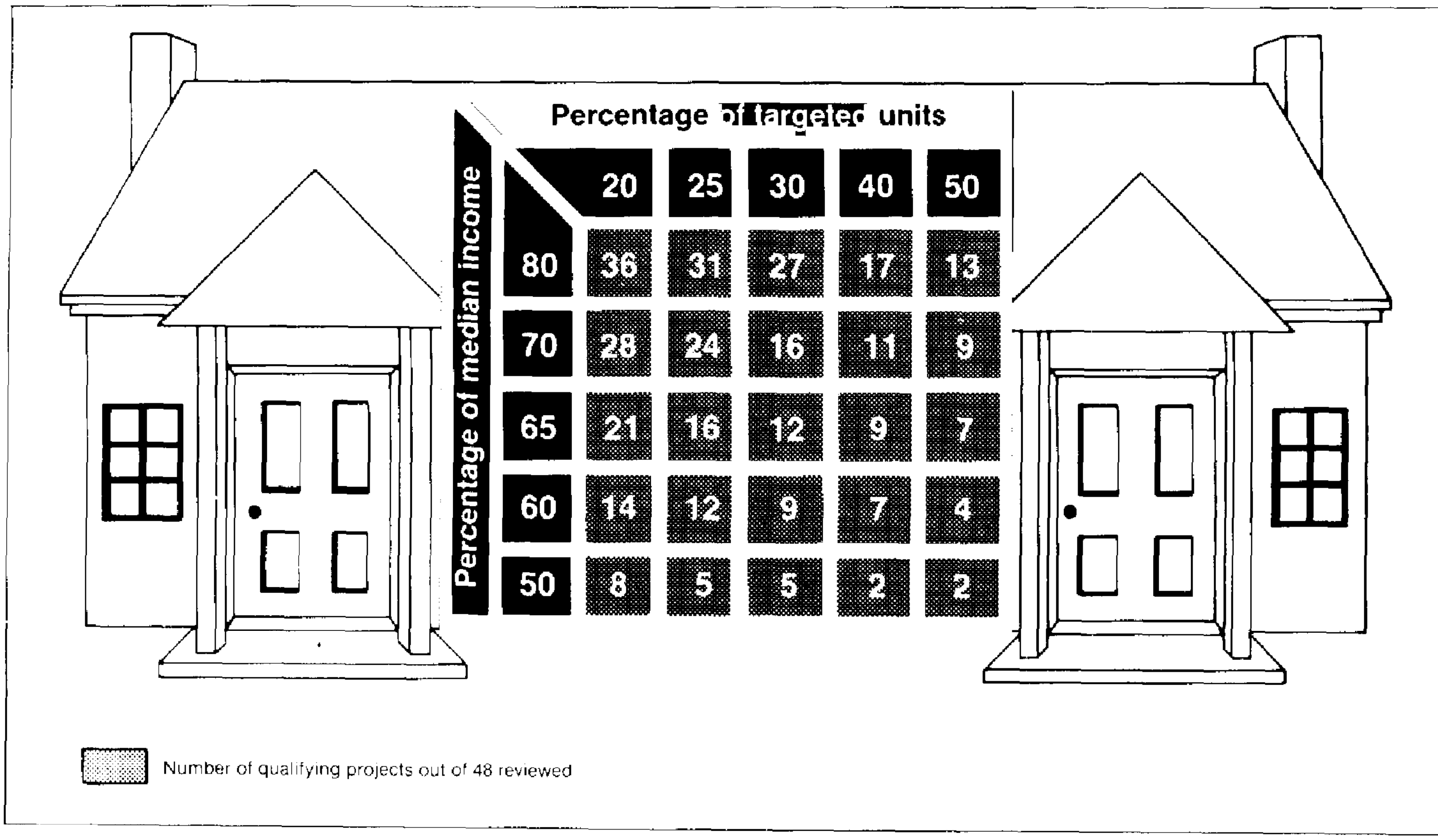
Congressional concern is growing over the extent to which low- and moderate-income households are benefiting from the tax-exempt bond program. As a result, the Congress is considering ways to better target the program to this income group. We have identified several actions the Congress may wish to consider to better serve lower income households. However, taking any of these actions could diminish the program's attractiveness to developers, possibly reducing the number of rental units that would otherwise be constructed under the program.

Lower Income Ceiling and/or Increase Percentage of Units

As previously discussed, federal law defines low or moderate income for the tax-exempt bond program as households earning 80 percent or less of an area's median income, and requires that at least 20 percent of a project's units be occupied by such households. The program may achieve a greater public purpose to the extent that this income ceiling is lowered and/or the number of units required to be occupied by low- and moderate-income households is increased.

The following matrix in figure 2.1 illustrates how different combinations of more restrictive requirements, including adjustments for family size, would have affected the eligibility of the 48 projects for which we were able to obtain both household size and income data.

Figure 2.1: Number of Projects Meeting More Restrictive Eligibility Criteria



The upper left corner of the matrix shows that 36 projects would qualify for the program's tax exemption if it required that 20 percent of the units be occupied by households with incomes no higher than 80 percent of an area's median income after adjusting for family size. As one would expect, if the definition of low and moderate income were made more restrictive, fewer projects would qualify. For example, if the number of units required to be occupied by low- or moderate-income households remained at 20 percent, but the qualifying criteria were changed to 65 percent of area median income, 21 of the 48 projects would qualify. On the other hand, if the definition for low- or moderate-income remained at 80 percent of an area's median income but the percentage of units required to be occupied by these households were increased from 20 to 30 percent, then 27 of the 48 projects would qualify.

Two housing agencies we visited lowered the qualifying income ceiling to better target the tax-exempt program to lower income households. One agency—Maryland's Montgomery County Housing Opportunities Commission—redefined low and moderate income as 65 percent of the area's median income, while the other—Virginia's Fairfax County Redevelopment and Housing Authority—set the criterion at 70 percent. Aside from these two agencies, only eight of the 164 housing authorities that responded to our questionnaire stated that they use less than 80 percent of area median income in qualifying households as low-or moderate-income.

While none of the 19 housing agencies we visited increased the 20-percent occupancy requirement, 13 agencies that responded to our questionnaire stated that they had a higher requirement. Among these agencies, the percentage most frequently used was 25.

Limiting Rents of Low- and Moderate-Income Households

We found that most of the low- and moderate-income households renting units in bond-financed projects are paying a relatively high portion of their income on rent. As discussed in chapter 3, households receive direct benefits from the bond-financed program only to the extent that they pay below-market rents or developers are influenced to build lower rent projects. On the basis of data for the 7,175 households[2] in 48 bond-financed projects, we found that after adjusting incomes for family size, 63 percent of the low- and moderate-income households were paying rents in excess of 30 percent[3] of their gross income. In sharp contrast, only 4 percent of the remaining higher income households were paying more than 30 percent. Table 2.6 provides more detailed information on the portion of income paid for rent according to income group.

Table 2.6: Percentage of Gross Income Spent on Rent

Income category	30 percent or less	31-40 percent	41-50 percent	Over 50 percent
Low- and moderate- income households	37	36	14	13
Higher income households	96	4	0	0

[2]Although we obtained income and household size data for 7,887 households, we could obtain rent, income, and household size data for only 7,175 households.

[3]HUD often uses 30 percent or less of gross income as a benchmark for reasonable or affordable rent burden for lower income households.

Because tax-exempt bonds result in only a minimal increase in the overall supply of rental units (see p. 44), tenants generally benefit from this financing only to the extent that they pay below market rents. (See ch. 3.) Since there are no rent restrictions in the bond program, the developer will generally charge market rents unless discounts are necessary to attract low-income renters or to comply with local requirements. We found that, for the most part, market rents are charged in bond-financed units. Therefore, tenants who happen to live in bond-financed units generally pay rents no lower than those living in comparable conventionally financed, market-rate units.

In about one-third of the projects we visited, some low- or moderate-income households were charged reduced rents either to comply with local housing agency requirements or to obtain a sufficient number of tenants to meet the 20-percent occupancy level. However, the number of units actually subsidized and the amount of the subsidy varied widely among these projects. At some projects, all 20 percent of the units occupied by low- or moderate-income households had reduced rents, whereas other projects reduced rents on only a portion of these units. The amount of rent reductions also varied—from as much as $200 per month to as little as $10.

Our questionnaire asked housing agencies if rents paid by low- and moderate-income households were less than rents paid by others for identical units in the same project. Fifty-three percent of the housing agencies res

rents were the same, and 30 percent did not know.

Methods for Limiting Rents

There are three primmary ways to control rents. The first—and in our opinion the least preferable—is to limit the percentage (i.e., 30 percent) of a household's income that may be charged for rent. Such a restriction could serve as an incentive to rent to low- or moderate-income households that are closest to the qualifying ceiling in order to minimize the amount of rent owners would have to forego. In addition, this type of rent restriction creates an administrative burden for projects because, theoretically, each lower income household could be charged a different rent on the basis of individual household income.

A second—and we believe better—method of controlling rents for lower income households is limiting rents to a certain percentage of an area's median income regardless of the actual income of the household occupying the unit. In contrast to the first method, this one provides no incentive to rent to low- or moderate-income households with the highest incomes and reduces an owner's administrative burden by basing rents on one standard—a percentage of area's median income—rather than on the varying incomes of individual households. This method was the one most commonly employed by those housing authorities that did limit rents on units occupied by lower income households and is further discussed on page 30.

This second method, however, also has its drawbacks: it does not guarantee that low- and moderate-income tenants benefit from the tax exemption because it does not necessarily require developers to pass on a portion of their subsidy to these tenants in the form of lower rents. For example, if a developer builds a bond-financed project where all units have relatively low rents (either because the developer builds in a relatively low cost area of a city or builds a relatively austere project), then all tenants may, in fact, be charged rents below those established by this method, without the developer's passing on any subsidy to tenants.

To the extent that the tax exemption influences a developer to build a lower rent project, lower income tenants may benefit; however, such influences cannot generally be isolated. Nevertheless, this method of controlling rents would discourge developers from building luxury projects. The high rents associated with such projects would require developers to pass along a greater portion of their subsidies to lower income households in the form of lower rents.

The third way to control rents is to require developers to reduce rents on units occupied by low- and moderate-income households, regardless of how low or affordable the market rents are on those units. This is the only method that guarantees lower income households will directly benefit from the program. Nevertheless this method too has its drawback. If, in fact, the program has influenced a developer to build a lower rent project than the developer would have built in the absence of the program, the developer may have already foregone some potential profit by making this decision. To then require that developer to further reduce rents may, in fact, become a disincentive to participating in the program.

Recertify Renter Income

The tax-exempt bond program does not presently require project owners to periodically recertify the incomes of low- and moderate-income households to ensure that at least 20 percent of a project's households do not have incomes that exceed the qualifying ceiling. In fact, the conference report to the 1980 amendment specifically states that annual recertification is not required. Our discussions with congressional staff and our review of the program's legislative history indicate that such a provision was not included because it could be difficult to monitor and noncompliance could result in an excessive penalty—the project could lose its tax-exempt status.

The incomes of low- and moderate-income renters are, however—like those of others—subject to change from year to year. As discussed on page 17 and 18, we found that almost half of the low- and moderate-income households in bond-financed projects were one-person households, with an average age of 31. Although we did not attempt to identify details of their employment, given that most of these people are young and live alone, we believe it reasonable to conclude that some, if not many, were in the beginning stages of their careers and could probably expect their incomes to increase in coming years.

By requiring annual recertification of incomes of low- and moderate-income households, the Congress would better ensure that the tax-exempt program is not serving households that may have had low incomes when they first rented their units, but whose incomes have since risen beyond the moderate level. Although monitoring compliance would impose an additional administrative requirement on project owners (i.e., annually contacting employers to verify tenants' incomes), nevertheless, 2 of the 19 housing agencies we visited had such a requirement and monitored annual recertification to assure that the intended population continues to be served. Housing agency officials told us that they minimize their monitoring burden by randomly verifying recertification reports.

Neither of these agencies requires that project managers ask a household to vacate their apartment if their income rises beyond the moderate level. Rather, if the change in income were to result in the project's falling below the 20-percent requirement, then when any unit in the project becomes vacant, it must be rented to a household whose income is within low- or moderate-income limits. In our opinion, this is a reasonable way to address a situation where a project is not in compliance, rather than possibly withdraw a project's tax-exempt status or request a household to move.

Recertifying incomes may be the only way to ensure that households once considered lower income are, in fact, still lower income. Furthermore, if the Congress were to limit rents on certain units occupied by low- and moderate-income households, recertification becomes all the more important to ensure that higher income households do not receive rent subsidies.

Consider Renting to Lower Income Households on Assisted-Housing Waiting Lists

The tax-exempt bond program can be of greater service to low- and moderate-income households if an attempt is made to rent units to those who have already expressed a need for housing assistance. Local housing authorities are generally required to keep waiting lists of those in need of assisted housing—one for public housing and one for the section 8 program. Although we generally did not find that these lists were being used to refer households to bond-financed projects, we believe that the bond-financed program might achieve a greater public purpose to the extent that developers work with housing authorities in identifying eligible tenants in need of housing assistance.

Given that the income limitations on households applying for section 8 or public housing units are more restrictive than for the bond-financed program, many households on local waiting lists may not have incomes that are high enough to afford a unit in a bond-financed project. Officials at one housing agency we visited told us that the incomes of the households on their locally assisted-housing waiting list had incomes so low that virtually none would be able to qualify for any bond-financed apartment in that area. On the other hand, officials at another housing agency estimated that about one-quarter of the households on their waiting list have sufficient income to qualify them for some bond-financed units in the area. This agency has been successful in placing some households from this list in bond-financed projects. The agency does not require a developer to rent to a household referred from the waiting list but, rather, leaves this to the developer's discretion. It is important to further note that this agency is one that requires reduced rents on units occupied by low- and moderate-income households, thus making them more affordable. Giving consideration to households on assisted housing waiting lists becomes even more feasible should the Congress require rent limitations.

Housing Agencies That Better Target Program to Low- and Moderate-Income Households

The previous section discussed ways that the Congress might better target the bond program to serve lower income households and notes that some housing agencies are taking some of these steps. Descriptions follow of three agencies that have incorporated some or all of these actions into their programs to better target this population.

Montgomery County, Maryland, Housing Opportunities Commission

The Montgomery County Housing Opportunities Commission operates a tax-exempt bond program that

- requires family size adjustments,
- lowers the income ceiling for qualifying households as low or moderate income,
- limits the amount of rent that can be charged to low-and moderate-income households,
- requires that the incomes of low- and moderate-income households be recertified annually, and
- refers households on their local assisted-housing waiting lists to developers when they are renting project units.

The Montgomery County Housing Opportunities Commission defines "low and moderate income" more strictly than do federal regulations by defining this group as earning no more than 65 percent of an area's median income adjusted for family size. Thus, a four-person household in Montgomery County can earn no more than $23,790, and a single person no more than $16,653, to qualify for the units that must be occupied by low- or moderate-income households. A four-person household could earn up to $29,280, and a single person up to $20,496, and still be considered low or moderate income if the county used the less restrictive federal criterion.

In addition, to better assure that these lower income households can afford a unit, the county limits their rent, including utilities, to no more than 30 percent of 65 percent of the area's median income (on the basis of a three-bedroom apartment and adjusted down for smaller units). To illustrate, the annual median income in Montgomery County is $36,600, and $23,790 is 65 percent of the median. Thus, low- or moderate-income tenants of a bond-financed project in Montgomery County could pay no more than $595 for a three-bedroom apartment, $535 for two bedrooms, and $476 for one bedroom. In high-rent projects, this can result in rents substantially below market rates. For example, as explained by the

Commission's executive director, the market-rate rent for a three-bedroom apartment in one of the county's projects was $819 a month, but the project's 20-percent low- or moderate-income households were charged the $595 monthly rent. As a result of their stricter definition of low or moderate income and their ceiling on rents, Montgomery County (1) reduces the chance that these households pay a disproportionate share of their income on rent and (2) ensures that at least 20 percent of a project' tenants have incomes that are 15 percent lower than what is federally required.

The Commission requires that the incomes of low- and moderate-income households be recertified annually and further assures that its bond-financed projects will benefit those in need of housing by requiring developers to use the Commission's applicant waiting list in selecting prospective low- or moderate-income tenants for 20 percent of each project's units. This waiting list is comprised of households on either the section 8 or public housing waiting list. Developers must consider this list at least 60 days before any public solicitation for tenants. Applicants from this list who respond during the 60-day period, who have sufficient incomes to afford the required rent, and who are approved by the developer will be given priority. As of August 1985, the waiting list contained about 4,500 households, of which about one quarter had incomes high enough to rent a bond-financed unit.

Aside from the more stringent restrictions Montgomery County places on the units to be occupied by low- and moderate-income households (20 percent), it requires that an additional 30 percent be occupied by households with incomes not exceeding the aarea's median. The county puts no income limitations on households occupying the remaining 50 percent of the units in a project.

Fairfax County, Virginia, Redevelopment and Housing Authority

The Fairfax County Redevelopment and Housing Authority, like Montgomery County, has taken multiple steps beyond those federally required to better target its program to low- and moderate-income households. In addition to requiring a family-size adjustment, it has a stricter definition of low or moderate income, restricts the amount that low- and moderate-income households can pay for rent, and requires developers to give priority in renting units to be occupied by low- or moderate-income households to those persons on the housing authority's waiting list.

Fairfax's housing authority defines low- and moderate-income households as earning no more than 70 percent of the area's median income adjusted by unit size. Given that larger families will occupy larger units, this tends to have the same effect as a family-size adjustment as shown in table 2.7.

Table 2.7: Income Limits As a Factor of Unit Size

Unit size	Maximum household size	Adjustment factor
Three-bedroom	4	x (70 percent of area median income)
Two-bedroom	3	.9x
One-bedroom	2	.8x

Fairfax's housing authority also limits rents developers may charge to low- and moderate-income tenants. Generally, the authority prefers to limit rents to no more than 25 percent of 70 percent of the area's median income adjusted by unit size. Rents may be somewhat higher, depending on project utility costs and negotiations with individual developers.

Furthermore, to assure that its program reaches lower income households in need of housing, Fairfax County requires that developers give priority consideration to households on the county's waiting lists for assisted-housing assistance. Lastly, the county requires that no less than 20 percent of each size unit in a project be available for low- and moderate-income households to assure a reasonable distribution of these households throughout project units.

Los Angeles, California, Community Development Department

In addition to requiring adjustments for family size, the Los Angeles Community Development Department established maximum rents that may be charged to low- or moderate-income households on the basis of the number of persons in the household and the size of the unit. Median income and rents are subject to periodic adjustments; rent increases are permitted only once a year and are limited to a specified percentage. Table 2.8 shows the relationship of income to the rents established by the agency at the time of our review. These rent limitations result in rent reductions ranging from $192 to $227 per month at the projects we visited.

Table 2.8: Maximum Rents for Low- And Moderate-Income Units

Persons in household	Maximum allowable income	Number of bedrooms 0	1	2	3
1	$16,150	$403	$403	$403	$403
2	18,450	403	461	461	461
3	20,750	403	461	518	518
4	23,050	n/a	n/a	576	576

The agency also requires that low- and moderate-income households be proportionately distributed among all unit types.

Conclusions

Tax-exempt bond-financed projects are renting to low- and moderate-income households in accordance with the law. While the law requires that only 20 percent of a project's units be occupied by low- and moderate-income households—defined as those earning no more than 80 percent of an area's median income—we found that 56 percent of the units in the projects we visited were occupied by such households without adjusting for family size (35 percent, if such an adjustment were made).

The program is not without problems. Ambiguity surrounds the issue of whether incomes should be adjusted for family size when qualifying households as low or moderate income. Neither the law nor implementing Treasury regulations are clear and, in the absence of clear criteria, most housing agencies have not made such an adjustment. The lack of an adjustment considerably increases the number of projects able to qualify as having at least 20 percent of their units occupied by low- and moderate-income households. (See table 2.5.) Although Treasury plans to finalize regulations that will require an adjustment for family size, it had not done so at the completion of our review.

We believe that if Treasury amended its regulations to require an adjustment for family size, it would eliminate confusion and would further the interests of low- and moderate-income households.

In addition to requiring household-size adjustments, options exist for tightening the criteria to better target the program to lower income households. The two that we believe to be the most effective are (1) lowering the income ceiling used to qualify households as low or moderate income and (2) limiting rents charged to low- and moderate-income households. Lowering the qualifying ceiling would result in bond-financed projects' renting to households with lower incomes than those who are currently living in these projects. Also, most low- and moderate-income households in bond-financed projects pay a disproportionate share of their income on rent. By limiting the rents charged to low- and moderate-income households, the Congress would better assure that these households do not incur an excessive rent burden.

Three other actions would also contribute to better serving low- and moderate-income households. First, the percentage of units to be occupied by low- or moderate-income households could be increased beyond the 20 percent now required. This would likely result in more of these households living in bond-financed projects. Without a decrease in the qualifying income ceiling, however, it is unlikely that any change would result in the income group served.

Second, by requiring project management to annually recertify the incomes of low- and moderate-income households, the Congress would be better assured that the program was continuing to serve this income group. If the Congress were to require that rents be limited on units serving low- and moderate-income households, then recertification increases in importance so that higher income renters do not receive rent subsidies.

Third, some low-income households have applied for assisted housing through their local housing agencies. If developers were required to give first consideration to these households and discount rents, it would increase the likelihood that individuals with an expressed need for housing assistance would benefit.

Incorporating the above requirements into legislation to better serve lower income households could, however, reduce the program's attractiveness to developers. This, in turn, could decrease the number of units constructed under the program. Nevertheless, given the program's considerable cost, as will be discussed in the following chapter, the Congress may wish to incorporate these changes even at the risk of some lessening of program participation by developers.

Recommendation to the Secretary of the Treasury

We recommend that the Secretary of the Treasury amend the implementing regulations to the Internal Revenue Code to require that an adjustment be made for household size when identifying a household's income as low or moderate.

Matters for Consideration by the Congress

If the Congress wants to continue the tax-exempt bond program and if it wishes to target the program to households whose incomes are lower than those currently served, a number of options are available. The information we have developed suggests that the program's requirements could be modified to further benefit this group or one of even lower income. However, if the Congress decides to legislate stricter income requirements, the benefits should be weighed against the possible impact on developer participation. In considering stricter requirements, the Congress will need to decide whether the program should serve more low- and moderate-income households, households with even lower incomes, or both. Accordingly, the Congress may wish to consider

- lowering the threshold used to qualify a household's income as low or moderate to some percentage below 80 percent of an area's median income and/or increasing the percentage of a project's units that must be occupied by low- or moderate-income households to a level beyond the 20 percent currently required,
- limiting rents charged to low- and moderate-income households to no more than a certain percentage of the area's median income or some dollar amount less than the project's market rents in an attempt to limit the rent burden of these households,
- requiring that low- and moderate-income renters' incomes be annually recertified to ensure that at least the required minimum level of low- and moderate-income households is maintained, and
- requiring that priority consideration be given to households on assisted-housing waiting lists in renting a certain percentage of units targeted to low- and moderate-income households.

Agency Comments

Treasury officials, in providing oral comments on our draft report, agreed with our recommendation that implementing regulations to the Internal Revenue Code be clarified to require that an adjustment be made for household size when identifying a household's income as low or moderate. The officials stated that Treasury was about to issue regulations stating that a household size adjustment will be required after December 31, 1985. The Department issued proposed regulations to this effect in November 1985.

Chapter 3

Costs and Beneficiaries of Tax-Exempt Bonds and Bond Impact on the Supply of Rental Housing

Tax-exempt bond financing for the development of multifamily rental housing results in a sizable federal revenue loss, primarily because holders of such bonds pay no federal income taxes on the interest earned. We estimate that the federal government will forego tax revenue of about $2.3 billion (in 1985 dollars) over the life of the bonds issued in 1983 and 1984.

Principal beneficiaries of tax-exempt bonds include bondholders, developers, financing intermediaries associated with issuing the bonds (including state and local housing agencies), and renters. Bondholders benefit from the rise in tax-exempt interest rates resulting from the increase in the volume of tax-exempt issues. Developers benefit from the tax exemption through lower project-financing costs. State and local housing agencies that issue the bonds and financing intermediaries—bond counsel, underwriters, and trustees—who structure and market bond issues benefit through administrative fees charged the developer. All renters benefit to the extent that rents are reduced as the rental housing supply is increased. The program has had minimal national impact, however, on increasing the supply of low-income rental housing.

Tax-Exempt Bonds Result in a Sizable Federal Revenue Loss

The principal federal cost associated with the use of tax-exempt bonds for multifamily rental housing is the revenue loss that occurs because no federal income tax is due on the interest received by bondholders. We based our $2.3 billion loss estimate on an economic model that describes how investors typically adjust their portfolios to accommodate an increased supply of tax-exempt bonds. Our methodology is explained in detail in appendix V. Other factors that might also influence the total tax loss, but that we were unable to quantify, are described below.

Secondary Factors That Could Affect the Federal Tax Loss

Our estimate of the federal revenue lost from tax-exempt bonds could be influenced by several secondary factors, including

- accelerated property depreciation allowances,
- reinvestment of bond proceeds, and
- lower mortgage interest deductions.

Our work provides no basis for estimating the net effect of the tax-exempt bond program on the volume of construction or rehabilitation of all rental housing. Therefore, we are unable to estimate the impact of this factor on the total federal revenue loss resulting from accelerated depreciation allowances and lower mortgage interest deductions. Likewise, sufficient information was unavailable to accurately estimate the costs associated with reinvestment of bond proceeds in higher yielding securities.

Accelerated Depreciation

The Internal Revenue Code permits the owners of rental housing to recover their costs through depreciation over a period of time that is considerably shorter than the economic life of the property. This accelerated depreciation feature increases the cost of the tax-exempt bond program to the federal government to the extent that additional rental housing is built with the proceeds of the bonds.

The size of the revenue loss hinges on the extent to which capital is drawn to rental housing from nondepreciable sources or sources with less favorable depreciation allowances. If tax-exempt financing merely replaces conventional financing without affecting the amount of rental housing construction, no additional cost accrues since the amounts the owners of bond-financed rental housing deducted for depreciation would be the same as the amounts owners of conventional rental housing would have deducted. However, if the availability of tax-exempt financing increased the construction of rental housing and added to the existing housing stock by attracting resources away from other nondepreciable or less favorably depreciable activities, an additional loss in tax revenue ensues from the accelerated depreciation available for rental housing.

Investment of Bond Proceeds in Higher Yielding Securities

The federal government will incur a further cost in connection with tax-exempt bonds when state and local housing authorities invest bond proceeds in taxable securities earning a higher rate of return than the rate that the authorities must pay to the owners of their bonds. The profit resulting from borrowing funds at a lower rate in one market and lending them at a higher rate in another is called an "arbitrage profit." As nontaxable entities, state and local governments pay no federal income taxes on such arbitrage profits.

The Internal Revenue Code imposes specific restrictions on the power of state and local governments to earn arbitrage profits. They are expressly allowed, however, to earn tax-free profits on the proceeds of tax-exempt low-income housing bonds that are put aside for a limited time until needed to meet costs of construction or that are placed in a reserve account of restricted size.

Lower Mortgage Interest Deductions

Since tax-exempt financing offers owners below-market mortgage rates, their interest deductions on federal tax returns are smaller than they would be had they used conventional mortgage financing to build the same units. To the extent that developers would have built the same housing using more expensive conventional financing, our estimate of the federal revenue loss would be reduced.

State and Local Governments Also Incur Costs

The issuance of tax-exempt bonds for multifamily rental housing also results in state and local government tax losses because investment income earned by bondholders may also be exempt from state and local income taxes. The difficulty in obtaining information on the many variables affecting this calculation prevented our estimating the extent of state and local government tax loss.

While the amount of state and local income tax lost on bondholders' interest income is difficult to estimate because of variations in local tax codes and difficulty in obtaining other necessary information, such as the proportion of bonds purchased by in-state vs. out-of-state residents, it could be several million dollars. A 1985 report by the Legislative Analyst for the State of California recognized the problem in obtaining precise data but estimated that the state of California lost about $4-$5 million annually for each $1 billion in tax-exempt bonds sold, assuming all of the bonds were purchased by state residents.[1]

Presently, seven states have no state income tax. In addition, four others that have a state income tax do not allow an exemption for federally tax-exempt bonds. Therefore, these 11 states would not experience a loss of income tax revenue from the issuance of tax-exempt bonds; the remaining 39 states may, however, incur some loss of income tax revenue.

Beneficiaries of the Tax Exemption

The sale of tax-exempt multifamily housing bonds tends to raise prevailing tax-exempt interest rates to the benefit of the buyers of tax-exempt bonds. All buyers of tax-exempt bonds are beneficiaries of this effect,

[1] The Use of Mortgage Revenue Bonds in California, Legislative Analyst, State of California, January 1985.

not just the buyers of the bonds that are issued to finance multifamily housing projects. All receive higher after-tax rates of return on the bonds they buy than they otherwise would.

Besides bondholders, other beneficiaries of the bond-financed housing program include

- Developers. Developers benefit from lower financing costs from bond issues, which may enable them to earn a greater rate of return than is available from alternative investments, including conventionally financed rental housing.
- State and local housing agencies and financing intermediaries. Housing agencies issue bonds, and financing intermediaries structure and market the bond issues, charging developers administrative fees for their services (about 4 percent of a total bond issue).
- Tenants. Tenants benefit to the extent that rents are reduced or the housing supply is increased. Given the size of the existing rental housing stock, the program has not had an appreciable impact on the total supply of rental housing.

Developers

In evaluating the financial feasibility of multifamily housing projects, developers consider the risks and projected rates of return for both those projects and alternative investment opportunities. Information that we have collected indicates that developers who receive tax-exempt financing for multifamily housing generally pay 2.5 to 3.5 percentage points less to finance construction or rehabilitation than they would have to pay if they had to rely on conventional financing. This interest rate reduction lowers developers' costs to build multifamily housing, increasing the likelihood that developers will find that type of investment more profitable (after tax considerations and adjusting for risk) than other investments. The significance of this interest differential relative to developer profitability and the feasibility of using part of the differential to reduce rents on the units occupied by low- and moderate-income households are described below.

Developer Profitability

The availability of financing through the bond program at rates approximately 3 percentage points below those obtainable in the conventional money market can have a substantial impact on a project's profitability. Tax-exempt financing may influence developers to construct or rehabilitate multifamily rental projects, rather than make an alternative investment. Although it was not practical to obtain data on the profitability of alternative investments with which to compare the profitability of multifamily housing financed either conventionally or with tax-exempt bonds, we asked several developers to provide us with data showing the differences between the two methods of financing a multifamily housing project. One of these developers testified before the Subcommittee on Oversight, House Committee on Ways and Means, and provided income and expense statistics showing the interest rate impact of using tax-exempt bonds on a project that he built in Frederick, Maryland.

The project is a 51-unit townhouse development where the developer received approximately $2.1 million in bond financing at an interest rate of 9.7 percent. The developer estimates that had he financed this project conventionally, the interest costs would have been 13 percent. Rents on the units are $515 per month for 12 end-unit townhouses and $500 per month for the 39 interior townhouses. Tables 3.1 and 3.2 are abbreviated schedules, provided by the developer, showing the impact of bond financing on the project's cash flow over the first 6 years of operation.

Table 3.1: Income and Expense Schedule Using Tax-Exempt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Income:						
Gross rents	$308,160	$326,650	$346,249	$367,023	$389,045	$412,388
Minus 5% vacancy	15,408	16,332	17,312	18,351	19,452	20,619
Net receipts	**292,752**	**310,318**	**328,937**	**348,672**	**369,593**	**391,769**
Expenses:						
Debt service (9.7%)	205,428	205,428	205,428	205,428	205,428	205,428
Other	107,389	111,589	116,000	120,632	125,495	130,601
Total	**312,817**	**317,017**	**321,428**	**326,060**	**330,923**	**336,029**
Cash flow (deficit)	**($20,065)**	**($6,699)**	**$7,509**	**$22,612**	**$38,670**	**$55,740**
Total cash flow						**$97,767**

Table 3.2: Income and Expense Schedule Using Conventional Financing

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Income:						
Gross rents	$308,160	$326,650	$346,249	$367,023	$389,045	$412,388
Minus 5% vacancy	15,408	16,332	17,312	18,351	19,452	20,619
Net receipts	**292,752**	**310,318**	**328,937**	**348,672**	**369,593**	**391,769**
Expenses:						
Debt service (13%)	271,148	271,148	271,148	271,148	271,148	271,148
Other	107,389	111,590	116,001	120,632	125,495	130,601
Total	**378,537**	**382,738**	**387,149**	**391,780**	**396,643**	**401,749**
Cash flow (deficit)	**($85,785)**	**($72,420)**	**($58,212)**	**($43,108)**	**($27,050)**	**($9,980)**
Total cash flow (deficit)						**($296,555)**

A comparison of the two schedules shows that the developer saves about $66,000 annually ($271,148 minus $205,428) in interest expenses through bond financing (about $100 per unit per month). This is substantial, both in relation to the project's gross annual revenue ($293,000) and its impact on the project's profitability. The schedule shows that by using tax-exempt financing, the project generates a positive cash flow in the third year of operation, whereas the projections show a negative cash flow through the sixth year using conventional financing. For every year that the project does not generate a positive cash flow, the developer would have to put additional funds into the project in order to meet ongoing expenses.

Impact of Rent Reductions on Developer Profitability

While targeting benefits by limiting rents for lower income households would make the units more affordable to them, it would also lower a developer's profitability. We can illustrate the impact on developer profitability by assuming the local housing authority required the Frederick, Maryland, developer to limit rents on the 20 percent of the units to be occupied by low- and moderate-income households to not more than $450 per month—a rent that would be affordable to renters earning 50 percent of the area's median income. If we further assume that the developer complied with this requirement by renting 11 interior units at this reduced rent, the developer would forego $550 per month (11 units x $50), or $6,600 a year. This has the net effect of reducing the savings in interest cost for the developer by using bonds from $66,000 to $59,400, and has the following effect on the developer's projected cash flow:

Table 3.3: Cash Flow Comparison Considering Rent Limitations

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Cash flow (deficit)							
Without rent limitation	($20,065)	($6,699)	$7,509	$22,612	$38,670	$55,740	**$97,767**
With rent limitation	(26,665)	(13,299)	909	16,012	32,070	49,140	**58,167**

The above schedule illustrates several points. By lowering rents on some units, the project would not generate a significant positive cash flow until the fourth year rather than the third, and total cash flow would be reduced from about $98,000 to about $58,000 over the project's first 6 years. This is still, however, substantially greater than the $297,000 loss estimated with conventional financing.

Impact of Rent Limitations on Developer Decisions to Construct Projects

The developer of the Frederick, Maryland, project told us that he needed to realize the entire benefit of the interest rate reduction in order for the project to be financially feasible. In general, requiring that rents be limited on units designated for lower income families in tax-exempt projects lowers a developer's projected rate of return on these projects, making them less attractive relative to alternative investments. Whether they would still remain sufficiently attractive to result in the projects' being built would generally depend on the extent of the rent limitations and the expected profitability and risk of other investment alternatives available to individual developers.

In principle, portions of a developer's savings due to tax-exempt financing can be taken away by requiring reduced rents for lower income families until the bond-financed project is as profitable as the next-best investment alternative. Tenants receiving a subsidy to live in a bond-financed unit are better off than if they paid market rents to live in a comparable housing unit. The number of units that can be subsidized and the potential depth of the subsidy per unit depend on the value to the developer of tax-exempt financing which, in turn, depends on how much more profitable bond-financed rental housing is than the best alternative investment. A developer's savings in interest cost due to bond financing is the maximum amount potentially available to subsidize renters. This potential subsidy could be less if other investments are more profitable than conventionally financed rental housing projects. The closer in profitability the bond-financed project and the next-best alternatives are, the less that can be passed on to renters. For example, the bond financing may make a rental project $100,000 more profitable than with conventional financing. However, the developer's next-best investment may be $60,000 more profitable than a conventionally financed rental project. Therefore, a developer forced to pass more than $40,000 of the interest saving on to renters would be better off not participating in the program and investing in some other activity instead.

State and Local Housing Agencies and Financing Intermediaries

Housing agencies and financing intermediaries benefit from tax-exempt bonds to the extent that this method of financing creates additional demand for their services. Financing intermediaries include bond counsel, mortgage bankers, and trustees. While conventional financing also carries associated fees, certain financing fees collected by these parties are unique to bond financing.

We do not know how much additional income financing intermediaries received because of the program because we know neither the number of units built that would not otherwise have been built nor the amount of financing fees associated with conventional financing. But we determined, on the basis of information we could readily obtain, that intermediary fees averaged about 4 percent of the total bond issue for the 54 projects we visited, as follows:

Table 3.4: Average Intermediary Fees As Percentage of Bond Issues

	(percent)
Bond counsel and other legal fees	1.0
Underwriting fees	2.3
Trustee fees	0.1
Housing agency fees	0.3
Total	**3.7**

In addition to the fees shown above and as discussed previously, housing agencies may earn tax-free arbitrage interest income. Although housing agencies are entitled to this amount, in some cases developers, as their designees, receive this income instead. In these cases, the income would be taxable.

Tenants

Tenants benefit to the extent that tax-exempt bonds succeed in increasing the stock of available housing and lowering market rents beyond what they would be without the program. Typically, lower market rents result from rental supply increases. The greater the volume of activity financed by the bonds, the greater the market impact is likely to be. As discussed in chapter 2, low- and moderate-income tenants may benefit more if part of the interest rate subsidy is passed on to them in the form of lower rents.

Renters Benefit If the Housing Supply Is Increased

Tax-exempt bonds have been financing a significant amount of multifamily rental housing since about 1975. State and local governments have issued bonds since the 1930's, but did not do so to any great extent until the mid-1970's. According to a Treasury official, one reason they were not used earlier is that when market interest rates are low (as they were from the 1930's through the 1960's), the subsidy from tax-exempt financing is generally insufficient to compensate developers for the necessary documentation and other costs—both in time and money—of the program.

Multifamily bond activity generally increased from 1975 through 1984, peaking at an annual rate of about $5 billion. Data were not readily available on the number of units newly constructed or rehabilitated with tax-exempt bonds, but we estimate that about 200,000 new housing units may have been built with the proceeds of bonds issued in 1983 and 1984.[2] This represents about one-quarter of the 830,000 multifamily rental housing units started in these 2 years and about one-third of 1 percent of the 32-million-unit national rental stock in each year.[3] The total accumulated activity under the program from 1975 through 1984 represents about 2 percent of the rental housing stock.

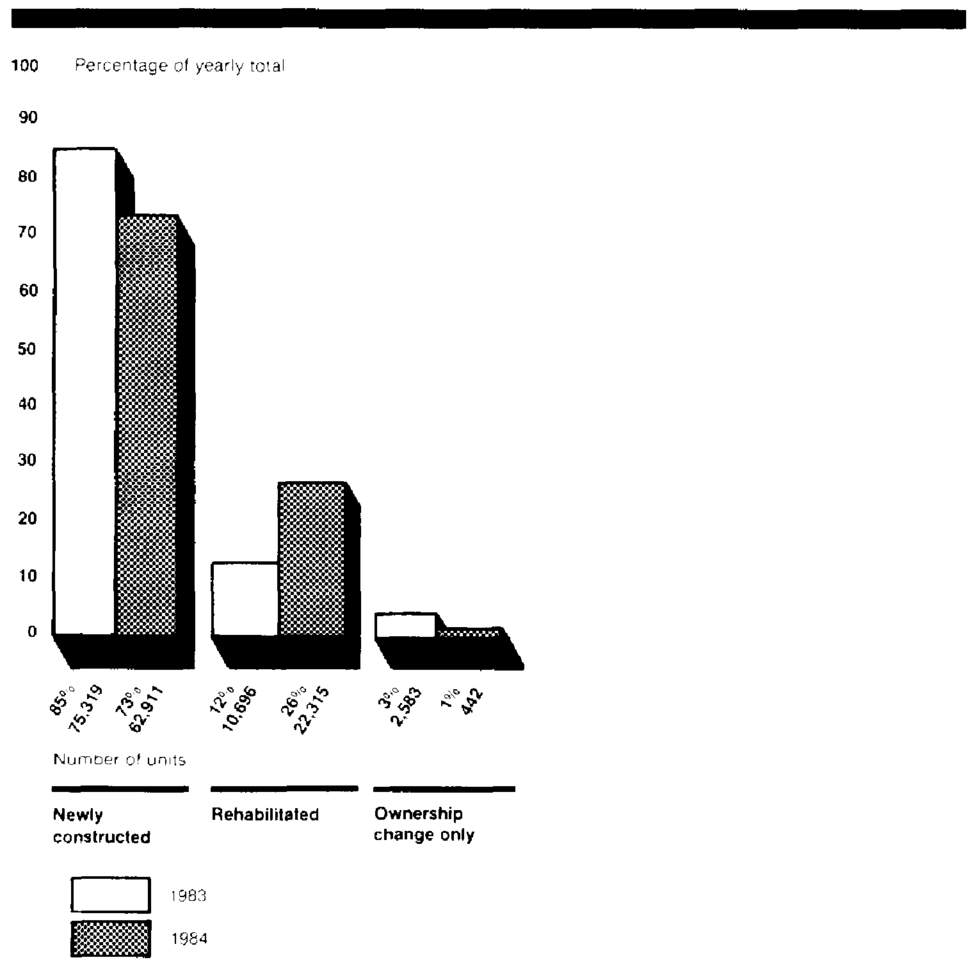
Housing agencies that responded to our questionnaire indicated that they financed about 89,000 units using about $3.1 billion (58 percent) of the $5.3 billion in bond activity in 1983. In 1984, they financed about 86,000 units using about $3.3 billion (66 percent) of the $5 billion in bond activity. In 1983 and 1984 combined, about 79 percent of the financing was used for new construction, 19 percent for rehabilitation—regardless of whether change of ownership occurred—and 2 percent for a change of ownership only. Figure 3.1 illustrates the extent to which

[2]The number of units built under the program is calculated by using our questionnaire results, which suggest that 80 percent of the $10.3 billion in bonds issued in 1983-84 were used for new construction. Department of Commerce data suggest that the average unit cost of a newly constructed apartment may be about $40,000. Dividing $40,000 into $8.2 billion results in approximately 200,000 new units being built in 1983-84.

[3]The 830,000 newly constructed multifamily rental housing units built in 1983 and 1984 represent all multifamily construction for rent and 30 percent of the multifamily construction of condominiums (30 percent is the estimated portion of condominiums that are rented).

tax-exempt bonds financed new construction, rehabilitation, or a change of ownership in each of the years 1983 and 1984:

Figure 3.1: Types of Projects Financed With Bond Proceeds



While we cannot determine the exact increase in the housing supply resulting from the use of tax-exempt bonds, we believe that the program's overall impact on the housing market has probably been minimal. This is because the accumulated rental units built with tax-exempt bonds represent only about 2 percent of the total rental housing stock, and many of these units might have been built anyway. Housing economics literature suggests that each 1-percent increase in supply is likely to cause a 1-percent reduction in market rents. Therefore, even if all the bond-financed units represent additions to the housing stock, the cumulative effect of the program on rents is probably only about a 2-

percent reduction. At current average rents, this represents about $8 to $10 per month. The actual effect has probably been smaller, again, because many of the bond-financed units might have been built anyway.

The primary reason why many of the units built with tax-exempt bond financing might have been built using conventional financing is that market evidence suggests that there is enough renter demand at rents high enough to allow sufficient developer profitability even with conventional financing. As we have shown, three-quarters of recent rental construction may have been conventionally financed. Many of the projects financed by bonds did not differ substantially in type from conventionally financed units built in the same markets. If the bond-financed projects could be rented at similar rents, then they might be just as profitable if financed conventionally as those projects that were actually financed conventionally (although less profitable than they are with tax-exempt financing). At the time of our review, most bond-financed projects were occupied by tenants paying market rents. Thus, it is likely that these tenants' demand for rental housing at market rates would remain subtantially the same even if the projects were financed conventionally. Therefore, it is likely that if no units were built with tax-exempt financing, additional conventionally financed units could be profitably built.[4]

To the extent that the program is responsible for an increase in the supply of rental housing, it will contribute to some reduction in rents. However, these rent reductions may not extend evenly throughout the renter market. Rental housing markets often show some degree of segmentation by quality, with owners of higher quality units charging higher rents. New bond-financed units typically add to the available supply in the higher priced segment. Therefore, at least initially, the benefits from supply increases may accrue primarily to those who typically live in such units. Because rents are higher for these units, many of these tenants are likely to have incomes higher than the average renter.

Over time, some of these benefits may reach tenants living in or searching for units in the lower priced segments of the rental stock. Benefits filter down to the extent that there is tenant crossover between market segments. If some tenants vacate lower priced/lower quality units to move into the new higher priced/higher quality units, this will create

[4]This line of reasoning does not apply in markets in which all new rental construction is financed by tax-exempt bonds. The absence of conventionally financed construction makes it more likely that tax-exempt financing is necessary to assure profitability. Even if tenants are willing to pay market rents, those rents may be insufficient to warrant construction without tax-exempt financing.

downward pressure on rents in the lower segments. The greater the difference in rents charged between two market segments, the less likely that crossover occurs and the less likely it is that (or the longer it will take until) benefits will reach the lower priced market segment.

Bond financing can also benefit some types of renters if program criteria influence developers to build a project differently than they would under conventional financing. Suppose, for example, that in order to meet tighter targeting criteria, a project that would otherwise contain high-quality units must be more austere to be profitable with lower rents. In that case the new units would add to the lower rather than the higher segment of the rental housing stock, which would more likely benefit lower income renters. By definition, the austere project is less profitable than a project built without targeting criteria (otherwise the austere project would have been built without government incentives). In this example, the developer gives up some market profitability in return for the interest-rate subsidy. Thus, by subsidizing the construction of an austere, less profitable project, some of the government subsidy is passed on to lower income renters by increasing the quantity of lower priced/lower quality rental housing.

The developer presumably keeps a sufficient portion of the subsidy to retain the advantage from participating in the program; otherwise, there is no reason for the developer to participate. The developer's willingness to participate in the program is limited by the amount of the subsidy that the developer keeps and the extent to which the more austere project is less profitable than a market-rate project. As with supply increases, it is impossible to tell if and when this change occurs. Further, given the volume of the program relative to the existing stock, any impact is likely to be quite small.

Conclusions

Tax-exempt bonds create a sizable federal subsidy for constructing and rehabilitating rental housing. The present-value cost to the federal government from the issuance of $10 billion of these bonds in 1983 and 1984 totals about $2.3 billion. This subsidy aids developers of rental property through lower financing costs. Others—such as state and local housing agencies, bond counsel, underwriters, and trustees—also benefit by charging developers administrative fees for their services in issuing, structuring, and marketing bond issues. Lastly, bondholders benefit from the increase in tax-exempt interest rates resulting from the sale of multifamily housing bonds.

Tenants benefit to the extent that tax-exempt bonds succeed in increasing the supply of rental housing and lowering rents beyond what they would be without the tax exemption. Nationally, tax-exempt bond financing accounted for one quarter of the new rental housing construction in 1983 and 1984. The impact of this housing, however, on meeting low-income renters' needs is minimal because most tax-exempt bond-financed projects charge market rents. These rents generally exceed average rents for all rental units because they are of higher quality. This indicates that rental housing demand exists and might well be met without tax-exempt financing.

Agency Comments

Treasury officials pointed out that our estimate of the cost of the tax-exempt bond program is lower than the Treasury estimate. Treasury computed a revenue loss of $2.6 billion over the life of bonds issued in 1983. The principal difference between Treasury's and our estimate is that Treasury assumes that bond buyers are in higher tax brackets, while we take a more conservative approach by assuming that investors have lower marginal tax rates.

Chapter 4

Project Characteristics and Management

In addition to the issues presented in chapters 2 and 3, we were asked to provide information on (1) the physical characteristics of tax-exempt bond-financed projects, (2) how well these projects are maintained, (3) whether the low- and moderate-income households in these projects are discriminated against in any way, and (4) how projects are monitored to ensure that at least 20 percent of their units are occupied by low- or moderate-income households.

We found that, just as a person looking for an apartment in a conventionally financed project usually encounters a range of alternatives, so does the person looking to rent in a bond-financed project. The 54 projects we visited were representative of their local area's rental housing market in that they varied in structure design and style, floor plans, and rents charged. These projects appeared to be well maintained.

Rents charged were a key factor in the extent to which each project served low- and moderate-income households. As would be expected, those projects charging the lowest rents had the highest percentage of units occupied by low- and moderate-income households. Conversely, those charging the highest rents had the lowest percentage of units occupied by these tenants.

The amount of rent charged is influenced by many factors. For example, among the projects we visited, those charging the lowest rents were often rehabilitated and had the fewest facilities available for tenant use. On the other hand, projects charging the highest rents were often newly constructed and had many recreational facilities.

Households with low or moderate incomes had equal access to common facilities. They were limited in choosing an apartment only by what they could afford, and they occupied units interspersed throughout the projects. The only types of restrictions we found occurred in projects that were limited to adults or to the elderly—restrictions we encountered in 21 of the 54 projects.

Tenant data we obtained showed that in 52 of the 54 projects visited (97 percent), households having low or moderate incomes occupied units to a degree that met or exceeded the law's 20-percent requirement. Project managers assured adherence to this requirement primarily by gathering and verifying household-income data, certifying eligibility, and reporting periodically to trustees and/or housing agencies the percentage of units occupied by low- or moderate-income households.

Project Characteristics Vary

Each of the 54 projects differed in construction costs, rents, size, and facilities; none could be considered typical. Bond issues for the 38 newly constructed projects we visited ranged from $1 million to $20.1 million and averaged $7.8 million. For the 15 rehabilitated projects, bonds ranged from $425,000 to $12 million and averaged $4 million. One project involved a change of ownership only, with no rehabilitation. The bond issue for this project was $6.7 million.

Most of the projects visited (50 of 54) were two- or three-story buildings, and the remaining four were high rises. Buildings were constructed of brick, stucco, wood, and/or metal siding. The average number of apartments in the projects was 219 and ranged from 21 to 640 units.

Rents averaged $433 per month and ranged from $195 to $940. For newly constructed units, rents averaged $448 per month; for rehabilitated units, $358. The projects contained a mix of one-, two- , and three-bedroom apartments, as shown below:

Table 4.1: Distribution by Apartment Type

Type of unit	Number of projects	Total units
Studio/efficiency	9	**176**
One-bedroom	49	**5,084**
Two-bedroom	52	**5,965**
Three-bedroom	15	**619**

While the facilities most commonly found were swimming pools, fireplaces, and tennis courts, some projects also had other facilities, including complete exercise rooms, whirlpool baths, and jogging trails. Table 4.2 shows the number of projects (of the 54 visited) offering these facilities.

Table 4.2: Types of Facilities Offered

Facility	Number of projects that offered
Swimming pool	39
Fireplaces	26
Tennis courts	18
Covered parking	12
Recreation buildings	10
Recreation rooms	9
Other facilities	35

The extent to which projects have special facilities often reflects their tenants' ability to afford to live there. As one would expect, projects with the most facilities generally had tenants with incomes averaging more than projects with few facilities. We were able to obtain tenant income data for 51 projects that were sufficient to compare average tenant income with median renter income for the area. We found that 5 of the 51 projects had average tenant incomes below their areas' median renter income, 5 projects had average tenant incomes that were twice that of their areas' median renter income, and the remaining 41 had tenant incomes averaging between 100 and 200 percent of their areas' median renter income. The following sections provide some detail on these three types of projects. (App. VI contains specific information on these 51 projects.)

Most Projects Serving Tenants With Below-Median Renter Incomes Were Rehabilitated

In five projects the average household income was below the area's median renter income. The first four (see table 4.3) were rehabilitated; the fifth project (Grand Meadows) was newly constructed and received a local property tax subsidy, enabling it to reduce rents. According to Grand Meadows' manager, the tax abatement was entirely passed on to tenants, resulting in an average tenant savings of about $40 per month. Assuming 100-percent occupancy (101 units), the rent reductions from the subsidy would total about $48,000 per year.

None of the five projects had many extra amenities. Table 4.3 provides income data on the tenants of these five projects.

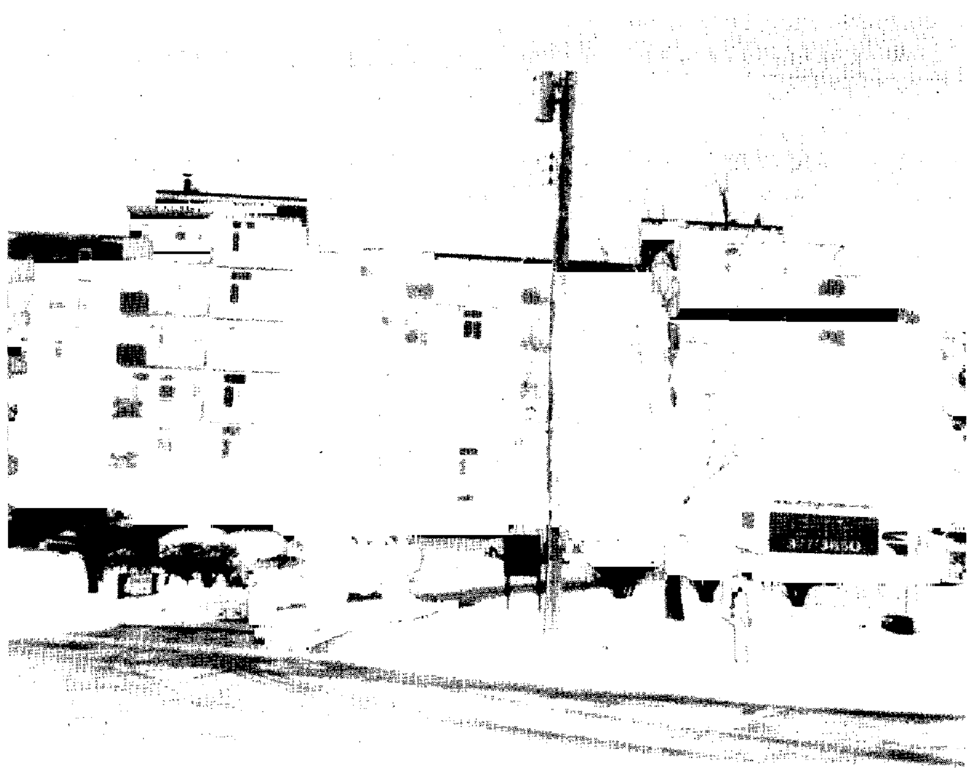
Table 4.3: Projects With Tenant Incomes Below Area Median

Project (state)	Average tenant income	Area median renter income	Project rent range	Percentage of units occupied by low-or moderate-income households: No family size adjust.	Percentage of units occupied by low-or moderate-income households: With family size adjust.
Oakmont (Va.)	$12,803	$13,266	$310-326	96	86
Seven Corners (Va.)	16,129	19,587	361-465	94	84
Vantage Point (Minn.)	11,291	13,826	315-390	99	93
Sunrise (Mich.)	12,482	12,904	255-350	100	[a]
Grand Meadows (Mich.)	10,224	15,158	317-429	100	[a]

[a]Family size data were not available for these projects.

Figure 4.1 pictures one of the projects we visited where tenants' incomes were generally below area median.

Figure 4.1: Vantage Point Apartments, Minneapolis, Minn.



Located near downtown Minneapolis, Vantage Point is a rehabilitated high rise that charged rents generally lower than area market rents. Eighty percent of the project's tenants lived there before it was rehabilitated. The area immediately surrounding Vantage Point contains little market-rate housing: most is either federally assisted or publicly owned. The only notable amenities in this project were carpeting in a few apartments and a security alarm system.

At the time of our visit, 173 of its 175 units were occupied and all but one of the households met the low- or moderate-income requirement without family size adjustment. Nevertheless, even with this adjustment, 93 percent would have met the low- or moderate-income requirement. The project had an average tenant income of just over $11,000—about 87 percent of the area's median renter income—and rents ranged from $315 to $390.

Projects Serving Tenants With Higher Incomes Were New and Had More Amenities

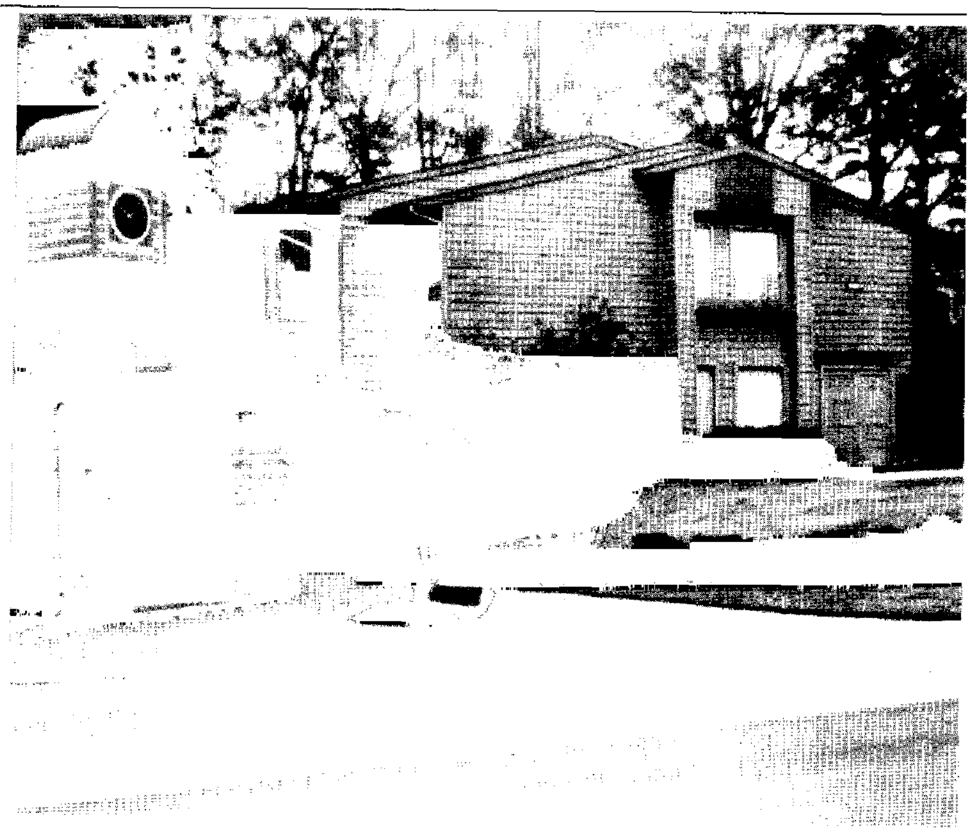
As shown in table 4.4, five projects (four of which were newly constructed) had an average tenant income that was at least twice that of the median renter income in the area.

Table 4.4: Projects With Tenant Incomes More Than Double Area Median

				Percentage of units occupied by low- or moderate-income households	
Project (state)	**Average tenant income**	**Area median renter income**	**Project rent range**	**No family size adjust.**	**With family size adjust.**
Botetourt (Va.)	$29,608	$13,266	$285-675	40	26
Amherst (Calif.)	32,526	14,946	383-940	42	32
Winterset (Ga.)	36,575	17,935	475-755	9	2
North Hill (Ga.)	39,432	15,764	505-670	10	1
Symphony Place (Minn.)	40,857	13,826	506-825	32	19

North Hill Apartments, pictured below, is one of the projects having an average tenant income of two and a half times the area median.

Figure 4.2: North Hill Apartments, Atlanta, Ga.

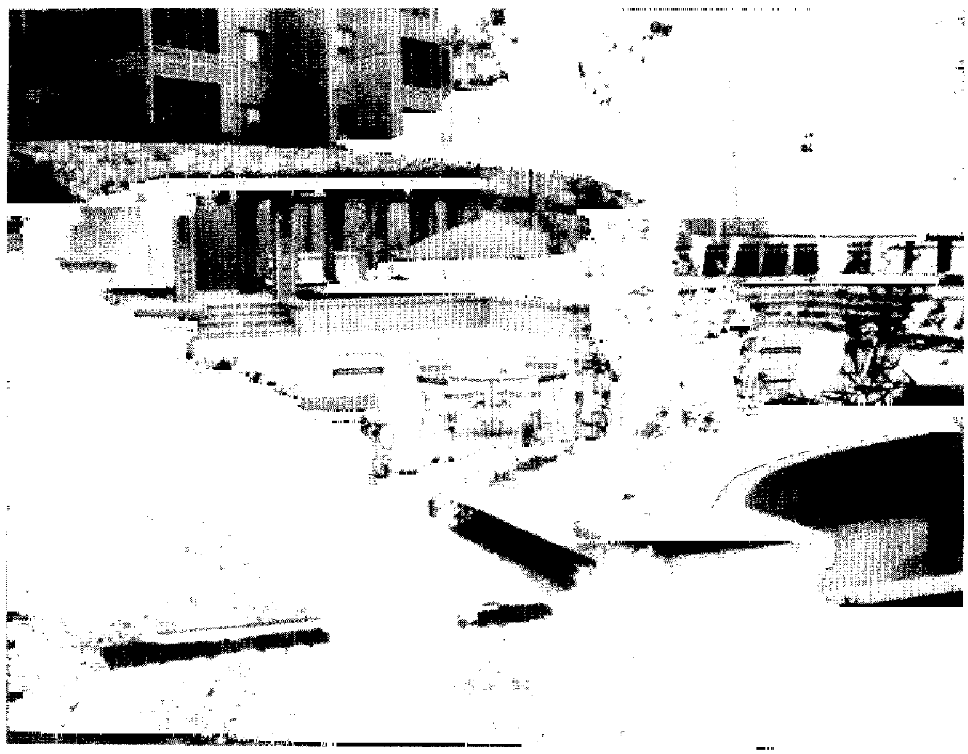


Located in the Atlanta metropolitan area, this project is a newly constructed garden style complex that charged rents generally higher than area market-rate rents. North Hill's advertising brochure describes the following extra features and facilities:

- Electronic security gate.
- Distinctive contemporary architecture.
- Lush landscaping.
- Pool with sundeck and Jacuzzi.
- Two lighted tennis courts.
- Car wash and coin laundry.
- Screened porch or sunroom.
- Fireplaces with ceramic hearths in some apartments.
- Mirrored closet doors in some apartments.

- Greenhouse windows in some apartment kitchens.
- Additional windows and doors in some apartments.

Figure 4.3: Pool Area, North Hill Apartments



Construction of this 328-unit project was completed in December 1984; at the time of our visit in November 1984, 270 units were occupied. North Hill is one of two projects that we visited where low- and moderate-income requirements were not met even without adjustments for family size. (See p. 58.) Households had an average income of over $39,000—about 250 percent of the area's median renter income. Rents at North Hill averaged about $600.

Projects Serving Average- To Above-Average-Income Tenants Varied

At the remaining 41 projects, the average tenant income was higher than (but less than double) the areas' median renter income. Thirty-two of the projects were newly constructed; 8 were rehabilitated; and 1 involved a change of ownership without rehabilitation. The first two projects listed in table 4.5 had average tenant incomes that were about the same as area median renter income; the next two had average tenant incomes about 150 percent of area median renter income; and the last two had average tenant incomes almost twice those of median renter incomes.

Table 4.5: Projects With Tenant Incomes Less Than Double Area Median

Project (state)	Average tenant income	Area median renter income	Project rent range	Percentage of units occupied by low- or moderate-income households: No family size adjust.	Percentage of units occupied by low- or moderate-income households: With family size adjust.
Royalgate (Tex.)	$13,336	$13,331	$260-400	86	79
Pine Cove (Ga.)	13,884	13,545	195-325	68	57
Kensington Sq. (Mo.)	21,060	13,576	315-425	63	39
Five Flags (Fla.)	21,338	14,172	330-470	54	26
Dunlap (Ariz.)	26,875	14,402	365-510	41	29
Summerwood (Ga.)	31,414	15,764	485-610	25	6

As one might expect, projects at the lower end of the scale are more likely to charge lower rents and, thus, serve a higher percentage of low- and moderate-income tenants.

Projects Were Well Maintained

All the projects that we visited were constructed or rehabilitated within the past 3 years. Our observations of buildings, units, and grounds were that they appeared to be kept in good condition, consistent with what one would expect from projects so new. Most projects employed full-time maintenance personnel to attend to household chores, including cleaning, painting, and minor repairs. Some owners had already established a capital reserve account for major repairs.

Projects Did Not Restrict Tenants on the Basis of Income

None of the projects we visited restricted their low- or moderate-income tenants from using common facilities, such as tennis courts or swimming pools. No rental contract exclusions existed limiting the use of these facilties to any tenants. Sometimes, however, low- and moderate-income households occupied units with fewer amenities because they were unable to afford higher rents. Also, some projects were restricted to occupancy by adults or the elderly.

Units Rented by Low- and Moderate-Income Households Were Distributed Throughout Projects

Low- and moderate-income households were offered the same selection of apartments as higher income households in terms of size, amentities, and unit location, i.e., building level or view. They were constrained in choosing a unit only by what they could afford. For example, a household's income had some impact on whether it rented an apartment with a fireplace or balcony.

Monthly reports to trustees often listed the apartment numbers of low- or moderate-income tenants and our analysis of these lists, along with our observations at the sites, showed that these units were distributed throughout the apartment complex and not located in a single area.

Some Projects Excluded Children

Nineteen of the 54 projects we visited had some form of restriction against renting to households with children. Eleven of these projects did not permit children at all and 7 had restrictions regarding the age of children or the specific units they were permitted to occupy. The remaining project restricted occupancy to the elderly.

In our opinion, excluding children from projects, with the exception of those specifically designated for the elderly, is not in keeping with the program's public purpose intent since it tends to discriminate against families.

Monitoring of Income Requirements

Project owners are responsible for assuring compliance with the federal requirement that at least 20 percent of the households in their projects qualify as low- or moderate-income households.

Provisions in the deeds between the mortgagee and the project owner state that the owner must comply with section 103 requirements. In some cases, a "supplementary regulatory agreement" is made between the housing agency and the owner that states that the owner must comply with section 103. Owners, in turn, generally rely on their project managers to assure compliance with requirements.

We found only two projects that did not comply with this requirement. In these two projects—North Hill in Atlanta and Winterset in Marietta, Georgia—low-income occupancy was 10 percent and 9 percent, respectively. The managers of these projects told us that they misinterpreted their local housing agency instructions and used 100 percent, rather than 80 percent, of area median income when qualifying households.

Within 90 days of our bringing this matter to their attention, the managers of the projects reported to their trustees that at least 20 percent of their tenants met the federal criterion.

In order to rent an apartment, a person normally must provide income data that includes the amount and sources of income. All of the projects had such data on tenants qualifying as having low or moderate income. Project managers certified the income eligibility of these tenants by calculating total income and comparing that amount with 80 percent of the area's median income. Managers verified reported income by telephoning employers or financial institutions, obtaining statements of wages and income and/or copies of filed income tax forms, and/or requiring individuals to have their income records notarized or to sign a statement that the income data given were complete and accurate.

Housing agencies generally monitor whether projects are sustaining the 20-percent requirement. Most of the housing agencies we visited receive monthly reports from project managers on compliance with income requirements. In some cases, this responsibility is delegated to trustees. The monthly reports generally showed the month's leasing activity, provided copies of income certifications, and showed the number of units occupied by low- or moderate-income households. Trustees and housing agency officials who receive the reports said that they review them and require compliance if the percentage of units occupied by lower income households falls below 20 percent. Trustee and housing agency officials alike said that they accept these reports "as is," with no attempts to confirm the data reported.

Other Tax-Exempt Bond Requirements Were Met

Public documents and official records at the 19 housing agencies we visited showed that they complied with federal requirements that (1) bonds be issued in registered form, (2) bond issues be approved by city or state officials and elected representatives, (3) bond issues be reported to the IRS starting in 1983, and (4) public hearings be held to discuss the bond funded projects.

Conclusions

As with rental units available in the private market, the quality of the units available under the tax-exempt bond program varies. This program, however, has one major feature that distinguishes it from the private market: a portion of its units must be occupied by low- or moderate-income households. Projects that charged low rents had no difficulty attracting and serving low- or moderate-income households.

However, as might be expected, projects with the lowest rents were the least luxurious. As rents increased, the quality of units improved, but the ability of low- and moderate-income households to afford these units decreased. In some cases, this was overcome by lowering the rents charged to this group. As discussed in chapter 2, we believe this is an issue that warrants congressional consideration.

We found no evidence that low- and moderate-income households are discriminated against in the use of common facilities. In fact, in those projects where low- and moderate-income households pay reduced rents, the facilities available are probably beyond what they could normally afford. As noted, we did find some projects that restricted households with children. We question whether this is in keeping with the public purpose intent of the program.

Tax-Exempt Bonds Issued by States for Rental Housing

Dollars in Millions

State	Amount 1983	1984
Alabama	$ 82	$ 0
Alaska	38	2
Arizona	172	66
Arkansas	18	17
California	793	927
Colorado	72	113
Connecticut	82	71
Delaware	20	7
Florida	353	470
Georgia	305	223
Hawaii	0	0
Idaho	4	0
Illinois	99	96
Indiana	43	25
Iowa	13	40
Kansas	45	39
Kentucky	15	4
Louisiana	188	104
Maine	0	14
Maryland	290	407
Massachusetts	55	22
Michigan	96	66
Minnesota	128	123
Mississippi	8	20
Missouri	160	204
Montana	16	0
Nebraska	9	4
Nevada	8	63
New Hampshire	0	22
New Jersey	48	30
New Mexico	11	20
New York	368	314
North Carolina	44	73
North Dakota	1	3
Ohio	7	64
Oklahoma	171	112
Oregon	0	0
Pennsylvania	21	53
Rhode Island	13	33

State	Amount	
	1983	1984
South Carolina	4	36
South Dakota	10	0
Tennessee	70	215
Texas	1,124	402
Utah	40	52
Vermont	8	0
Virginia	166	287
Washington	0	122
West Virginia	28	26
Wisconsin	7	10
Wyoming	3	0
Other	0	26
Total	**$5,256**	**$5,027**

Source: Internal Revenue Service, Office of Tax Analysis.

Copy of Questionnaire Mailed by GAO to Housing Agencies With a Summary of Responses Received

U.S. GENERAL ACCOUNTING OFFICE
Survey on the Use of Tax-Exempt Bonds
For Multi-Family Rental Housing

The U.S. General Accounting Office (GAO) is an agency of the U.S. Congress responsible for evaluating federal programs. We are currently evaluating the use of tax-exempt bonds for rental housing under Section 103 of the Internal Revenue Code. This evaluation has been requested by and the results will be reported to the Joint Committee on Taxation.

As you know, we recently sent you a mailgram to identify the types of projects financed with tax-exempt bonds. As part of our study, we are requesting housing agencies throughout the country to complete the enclosed questionnaire to obtain detailed information on how the program is being carried out. We would like you to respond to this questionnaire on the basis of activities and operations in your office. It will be necessary for you to consult your files when completing the questionnaire. You may find it helpful to have other knowledgeable staff answer certain sections of the questionnaire.

This questionnaire was developed to give the Congress some of the information it needs to determine what changes, if any, are needed in the tax-exempt bond program for rental housing. Most of the questions can be answered by filling in the blanks or checking the appropriate boxes. Space is provided at the end of the questionnaire for any comments you may have.

Your responses will be combined with others and reported in summary form. Please give us your frank and honest comments. Your name and telephone number or that of someone you had fill out the questionnaire are requested so that we may contact your agency should we need clarification of the responses or additional information.

Please return the completed questionnaire in the enclosed pre-addressed, postage-paid envelope within 10 days after receipt. In the event the envelope is misplaced, the return address is:

Walter C. Herrmann, Jr.
Regional Manager
U.S. General Accounting Office
Room 865
Patrick V. McNamara Federal Building
477 Michigan Avenue
Detroit, Michigan 48226

If you have any questions about the survey, please call Donald Schmidt or Vincent Phillips on FTS at 226-6044 or collect at (313) 226-6044. We appreciate your participation and cooperation.

ID1 (1-3)
CD1 (4)

INSTRUCTIONS: PLEASE ANSWER ALL QUESTIONS AS THEY APPLY TO MULTI-FAMILY RENTAL HOUSING FINANCED WITH TAX-EXEMPT BONDS ISSUED BY YOUR HOUSING AGENCY.

Questions 1 to 7 seek information about tax-exempt bonds issued under Section 103 of the Internal Revenue Code.

1. What was the total dollar amount of tax-exempt bonds issued under Section 103 of the Internal Revenue Code in calendar years 1983 and 1984? Please include all types of Section 103 financing methods.

CALENDAR YEAR	TOTAL DOLLAR AMOUNT	
1. 1983	$3,147,467,039	(5-13)
2. 1984	$3,325,991,438	(14-22)

2. How many units and projects were financed using tax-exempt bonds issued under Section 103 of the Internal Revenue Code in calendar years 1983 and 1984? Please include all types of Section 103 financing methods.

CALENDAR YEAR	Total Number Units	Total Number Projects	
1. 1983	88,598	717	(23-30)
2. 1984	85,668	564	(31-38)

3. How many newly-constructed units and projects were financed using tax-exempt bonds issued under Section 103 of the Internal Revenue Code in calendar years 1983 and 1984? Please include all types of Section 103 financing methods.

CALENDAR YEAR	Total Number Newly-Constructed Units	Total Number Newly-Constructed Projects	
1. 1983	75,319	507	(39-46)
2. 1984	62,911	410	(47-54)

4. How many existing units and projects were financed in calendar years 1983 and 1984 using tax-exempt bonds issued under Section 103 of the Internal Revenue Code which involved a change in ownership, but no rehabilitation occurred. Please include all types of Section 103 financing methods.

CALENDAR YEAR	Total Number Existing Units Not Rehab. With Ownership Change	Total Number Existing Projects Not Rehab. With Ownership Change	
1. 1983	2,583	6	(55-62)
2. 1984	442	3	(63-70)

5. How many existing units and projects were financed in calendar years 1983 and 1984 using tax-exempt bonds issued under Section 103 of the Internal Revenue Code which did not involve a change in ownership, but rehabilitation occurred? Please include all types of Section 103 financing methods.

CALENDAR YEAR	Total Number Existing Units Rehab. No Ownership Change	Total Number Existing Projects Rehab. No Ownership Change	
1. 1983	2,369	81	(5-12)
2. 1984	2,093	23	(13-20)

6. How many existing units and projects were financed in calendar years 1983 and 1984 using tax-exempt bonds issued under Section 103 of the Internal Revenue Code which involved both a change in ownership and rehabilitation? Please include all types of Section 103 financing methods.

CALENDAR YEAR	Total Number Existing Units Rehab. With Ownership Change	Total Number Existing Projects Rehab. With Ownership Change	
1. 1983	8,327	123	(21-28)
2. 1984	20,222	128	(29-36)

7. For the three most recently rehabilitated projects which had a change in ownership and involved bonds issued under Section 103 of the Internal Revenue Code, what was the total bond issue and the total amount allocated for rehabilitation? Please include all types of Section 103 financing methods.

PROJECT NO.	Total Bond Issue	Total Rehab. Allocation	
1. Project 1	550.6 mil	209.2 mil	(37-45)
2. Project 2	411.4 mil	148.6 mil	(46-54)
3. Project 3	262.8 mil	75.7 mil	(55-63)

8. Currently in your area, how much is each of the following income categories in need of multi-family rental housing? (FOR EACH INCOME CATEGORY CHECK ONE COLUMN.)

Percent

INCOME CATEGORIES	1. No Need	2. Little Need	3. Moderate Need	4. Great Need	5. Very Great Need
1. Area median income or greater	6	17	48	22	7
2. Low or moderate income (between 50% and 80% of the area median income)	2	4	24	47	23
3. Low income (50% or less of area median income)	2	3	16	27	52

(64-66)

9. Which of the following sources (if any) did you use to answer Question 8. (CHECK ALL THAT APPLY.) (67-70)

Percent	
63	1. [ ] Best estimate
14	2. [ ] Study conducted by this housing agency (WHAT YEAR(S) DID THIS STUDY COVER?__________)
18	3. [ ] Study conducted by a group outside of this housing agency (WHO CONDUCTED THIS STUDY AND WHAT YEAR(S) DID THE STUDY COVER?__________)
24	4. [ ] Other (SPECIFY)__________

10. Currently in your area, how much benefit (if any) has each of the following income categories received in terms of additional housing units from multi-family rental housing financed using tax-exempt bonds issued under Section 103 of the Internal Revenue Code? (FOR EACH INCOME CATEGORY CHECK ONE COLUMN.)

Percent

INCOME CATEGORIES	1. No Benefit	2. Little Benefit	3. Moderate Benefit	4. Great Benefit	5. Very Great Benefit
1. Area median income or greater	11	20	38	23	8
2. Low or moderate income (between 50% and 80% of the area median income)	2	14	34	33	17
3. Low income (50% or less of area median income)	12	32	24	15	17

(71-73)

11. Which of the following sources (if any) did you use to answer Question 10. (CHECK ALL THAT APPLY.) (74-77)

Percent	
63	1. [ ] Best estimate
12	2. [ ] Study conducted by this housing agency (WHAT YEAR(S) DID THIS STUDY COVER?__________)
4	3. [ ] Study conducted by a group outside of this housing agency (WHO CONDUCTED THIS STUDY AND WHAT YEAR(S) DID THE STUDY COVER?__________)
24	4. [ ] Other (SPECIFY)__________

12. In your area between January 1, 1982 and December 31, 1984, how much of an increase in multi-family rental housing has resulted from tax-exempt bonds issued under Section 103 of the Internal Revenue Code? (CHECK ONE. GIVE YOUR BEST ESTIMATE.) (78)

Percent	
29	1. [ ] 0-10% increase
12	2. [ ] 11%-25% increase
9	3. [ ] 26%-40% increase
11	4. [ ] 41%-60% increase
14	5. [ ] 61%-80% increase
25	6. [ ] 81%-100% increase

13. In your area between January 1, 1982 and December 31, 1984, how much of an increase in multi-family rental housing has resulted from all types of financing excluding tax-exempt bonds issued under Section 103 of the Internal Revenue Code? (CHECK ONE. GIVE YOUR BEST ESTIMATE.) (79)

Percent	
21	1. [ ] 0-10% increase
13	2. [ ] 11%-25% increase
9	3. [ ] 26%-40% increase
11	4. [ ] 41%-60% increase
14	5. [ ] 61%-80% increase
32	6. [ ] 81%-100% increase

14. Under Federal law, a Section 103 project (1) must have at least 20 percent of the units occupied by low or moderate income tenants, and (2) low or moderate income is defined as 80 percent or less than the area's median income.

For your Section 103 projects, has your housing agency adopted the Federal law as described above or are other rules used? (CHECK ALL THAT APPLY.) (5-9)

Percent	
74	1. [ ] This housing agency uses the Federal law described above.
8	2. [ ] More than 20% of Section 103 projects must be occupied by low or moderate income tenants (WHAT PERCENT IS USED? 21-100 %) (10-12)
5	3. [ ] Less than 80% of the area median income is used to define low and moderate income (WHAT PERCENT IS USED? 50-73 %) (13-15)
20	4. [ ] As a condition of occupancy, an applicant cannot exceed a certain annual income (WHAT IS THIS MAXIMUM INCOME LIMIT FOR A TWO-PERSON HOUSEHOLD $15,600-63,675) (16-20)
27	5. [ ] Other (SPECIFY) ______

15. Which method (if any) does your housing agency use to monitor compliance with the Section 103 bond requirement that at least 20% of the units in a project are occupied by low or moderate income individuals? (CHECK ALL THAT APPLY.)

(21-25)

Percent	
24	1. [ ] Housing agency periodically collects tenant income data
43	2. [ ] Housing agency periodically reviews tenant income data provided by project management
27	3. [ ] Trustee collects or reviews tenant income data
10	4. [ ] No monitoring is done
34	5. [ ] Other (SPECIFY)__________

16. In your area's Section 103 projects, are rents paid by low income tenants lower than rents paid by others for identical units in the same project? (CHECK ONE.)

(26)

Percent	
23	1. [ ] Rents are always lower
17	2. [ ] Rents are frequently lower
13	3. [ ] Rents are occasionally lower
17	4. [ ] Rents are the same
30	5. [ ] Don't know

17. Is your housing agency a state or local agency? (CHECK ONE.)

(27)

Percent	
23	1. [ ] State agency
77	2. [ ] Local agency

18. If you would like to elaborate on any of the issues raised in this questionnaire, use the space below.

(28)

31 Percent Responded

Provide the name and telephone number of the person completing this questionnaire so that we may contact him/her should we need clarification of any responses. You may wish to make a copy of your completed questionnaire so that your answers will be readily accessible to you should we seek clarification.

Name __________

Title __________

Telephone Number (   ) __________
Area Code

THANK YOU FOR YOUR COOPERATION.

Objectives, Scope, and Methodology

In an August 8, 1984, letter, the Joint Committee on Taxation asked us to undertake a review of the use of tax-exempt bonds to finance multifamily rental housing in order to help the Committee determine whether tax-exempt bonds are an efficient method for making more or better housing available for lower income individuals. Specifically, the Committee asked us to address the following questions:

1. How large are the costs imposed on various parties, including the federal government, states, and local governments, by the issuance of tax-exempt bonds for this purpose?

2. Who benefits, and by how much, from the tax exemption provided for interest paid on the bonds?

3. Is additional housing being built in response to these tax incentives and, if so, how much additional housing is being built?

4. If there is an increase in the stock of housing, what are the effects of this increase on local housing markets and who benefits from the increase?

5. To what extent are these bonds being used to finance new housing units as opposed to units undergoing a change of ownership, and when previously occupied units are financed, to what extent does renovation occur in conjunction with the change of ownership?

6. What are the physical characteristics of some of the projects that have been built with tax-exempt bonds?

7. Are the rental units that are reserved for (occupied by) low- and moderate-income individuals different from the other units in the project?

8. Do these occupants enjoy equal access to such amenities as swimming pools and recreation halls?

9. Are the housing units financed with tax-exempt bond proceeds generally well maintained over their economic life or are they permitted to deteriorate with relatively little maintenance being performed?

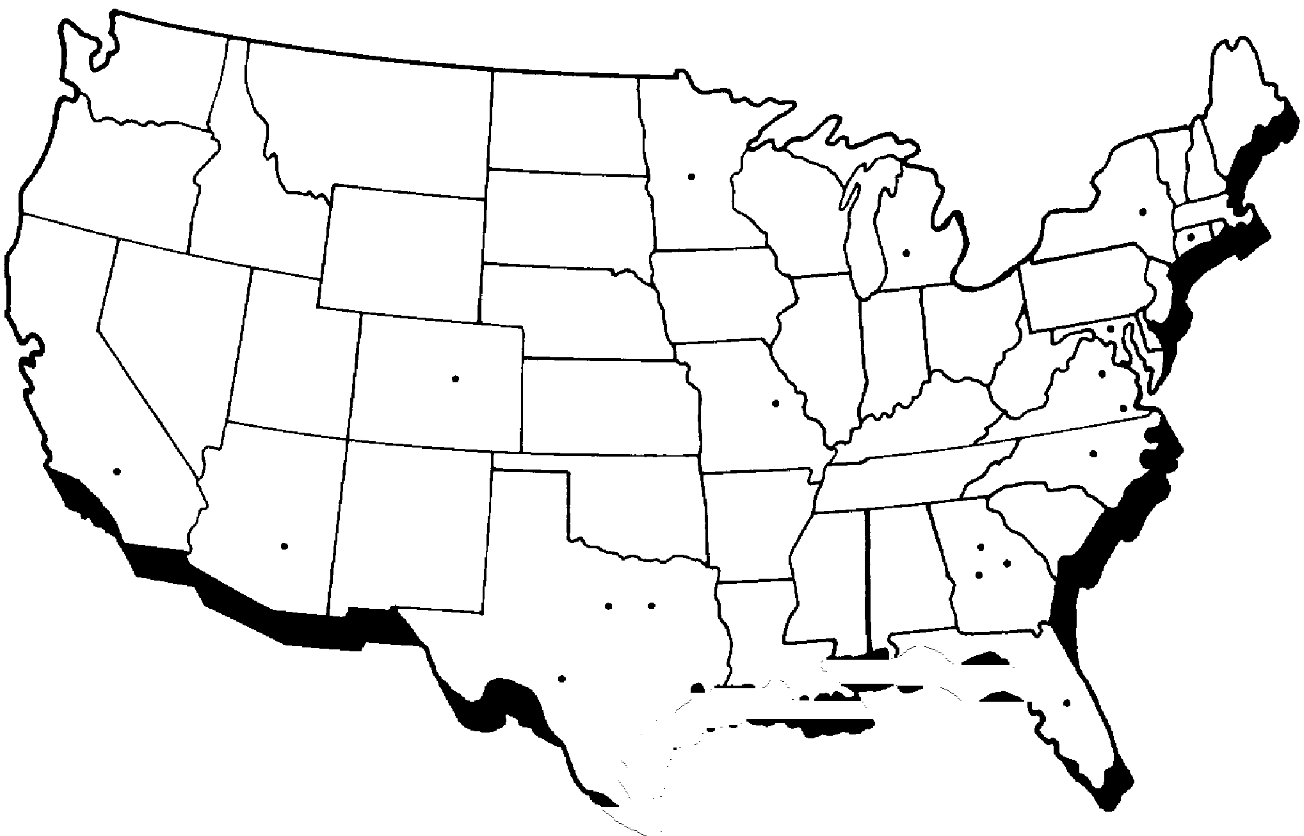
10. Are adequate efforts being made to monitor compliance with the requirement that specified numbers of units be reserved for (occupied by) low- and moderate-income individuals and with other requirements for tax exemption imposed by the Code?

Initially, we sent mailgrams to 243 housing agencies that reported to IRS that they issued tax-exempt bonds in 1983 under the provisions of section 103 of the Internal Revenue Code. A total of 288 agencies reported to IRS that they issued such bonds in 1983; however, IRS records and our own additional research identified addresses for only 243 of the agencies. Furthermore, 13 of the responses indicated that either the address was incomplete or the agency did not authorize tax-exempt bonds for rental housing. Thus, we received only 230 usable responses. Mailgram responses enabled us to identify the section 103 projects nationwide that were funded without section 8 project-based rental subsidies, and it was on these projects that we focused our selections for project visits. Under Section 8 of the U.S. Housing Act of 1937, the government provides a rental subsidy by paying the difference between a market-competitive rent and 25 to 30 percent of a tenant's income. By visiting projects without rental subsidies, we were able to better ascertain the specific benefit of tax-exempt bonds to low-income individuals.

We also sent questionnaires to the 230 agencies to achieve nationwide coverage of housing agency activities and to obtain additional data needed to answer the Committee's questions. (See app. II for a copy of the questionnaire and a summary of agencies' responses.)

The information obtained from IRS records and through the mailgrams and questionnaires was partially verified through visits to selected housing agencies and projects that they financed. Using information obtained from IRS records and the mailgrams, we judgmentally selected 19 housing agencies for detailed review, taking into consideration whether they were state or local agencies, the dollar amount of tax-exempt bonds issued by state and local agencies in the various states, geographic location, number of non-section 8 projects financed, and Committee interest. The Committee wanted us to visit projects in the northern part of the country (where new construction was in a depressed state) and projects in the southern part (where new construction was booming). The agencies selected and projects visited are summarized in appendix IV, and figure III.1 highlights the locations.

Figure III.1: Location of Housing Agencies Visited



We visited at least three bond-financed projects at each agency we selected, unless the agency financed less than three projects that met our criteria—non-section 8 housing financed since 1982 and at least 50-percent occupied. Because our visits to projects in the Atlanta, Georgia, area served as a testing ground for visits to other projects throughout the country, we visited additional projects in this area.

We developed national aggregate statistics on the nationwide rental stock, the number of units financed in 1983 through tax-exempt bond financing, and the number of units constructed or rehabilitated with alternative financing. During our visits to selected housing agencies, we also asked for information on the number of rental units built in that area with and without tax-exempt bond financing during 1983. In addition, our questionnaire asked housing agency officials their views on the extent to which additional housing was being built in response to the tax incentives.

The primary data we used to estimate lost tax revenues included records on municipal bond issuances filed with the IRS, computerized records maintained by Control Data Corporation on municipal bond offerings, and information from state and local housing agencies obtained through our nationwide questionnaire and our visits to selected agencies and projects.

During our visits to selected housing agencies and to projects they financed, we observed and documented the physical characteristics of the projects and collected information relative to their low- and moderate-income tenants.

During the review, we met with experts in the tax-exempt bond and housing areas to obtain their views. We also drew on general information from some of our previous work in housing that was related to some of the Committee's questions.

We conducted our review from August 1984 to August 1985 and performed our work in accordance with generally accepted government auditing standards.

Housing Agencies and Projects Visited During Review

Housing Agency and Project Name	Housing Agency Total Bonds Issued in 1983	Project Bond Issue Amount
New York City Housing Development Corp., New York, N.Y.[a]	$345,000,000	
Bexar County Housing Finance Corp., San Antonio, Tex.	122,300,000	
Royalgate		$3,200,000
Oak Run		4,590,000
Hearthstone		4,720,000
Michigan State Housing Development Authority, Lansing, Mich.	96,100,000	
Sunrise		4,360,162
Grand Meadows		2,793,462
Montgomery County Housing Opportunities Commission Kensington, Md.	88,800,000	
Knights Bridge		9,650,000
Greenhills		3,150,000
City of Marietta Housing Authority, Marietta, Ga.	68,100,000	
Summit Station		14,500,000
Winterset		14,225,000
Wood Glen		15,975,000
Wood Knoll		11,900,000
Connecticut Housing Authority, Hartford, Conn.	61,600,000	
Allen Court		2,831,297
Main Place		[b]
Industrial Development Authority, Phoenix, Ariz.	59,400,000	
Dunlap		5,230,000
Westcreek		6,000,000
Orange County Housing Authority, Orlando, Fla.	49,900,000	
Five Flags		6,500,000
Monterey West		7,925,000
West Winds		7,700,000

Type of Construction	Amount Spent on Rehabilitation	Number of Units	Monthly Rent Range	Utilities Included in Rent	Percentage of Units Occupied by Low- or Moderate-Income Individuals	Complete or Partial Restrictions
•	•	•	•	•	•	•
Rehabilitated	$760,103	153	$260-400	[m]	86	None
New	•	198	295-545	[o]	71	No children
New	•	252	222-369	[m]	70	None
Rehabilitated	2,714,989	334	255-350	[l]	100[h]	Elderly only in one building
New	•	101	317-429	[k]	100[i]	Elderly only
New	•	256	416-783	[m]	50	None
New	•	78	425-525	[m]	64	None
New	•	348	390-575	[l]	42	None
New	•	302	475-755	[l]	9[d]	No children in one bedroom
New	•	380	460-635	[o]	31	No children
New	•	312	395-655	[n]	37	No children
Rehabilitated	1,150,304	50	340-400	[j]	65	None
Rehabilitated	1,656,437	72	350-450	[o]	65	None
New	•	192	365-510	[o]	50	No children in 162 units
New	•	224	305-445	[o]	74	None
New	•	328	330-470	[l]	54	None
New	•	251	455	[i]	59	No children
New	•	272	355-505	[l]	32	One child in two-bedroom only

Housing Agency and Project Name	Housing Agency Total Bonds Issued in 1983	Project Bond Issue Amount
City of Los Angeles, Los Angeles, Calif.	45,700,000	
Burbank Blvd		1,287,500
Amherst Associates		1,025,000
Sherway Villa		3,070,000
Housing Authority of the County of Dekalb, Dekalb, Ga.	41,600,000	
Summerwood		7,983,966
North Hill		18,700,000
Winter Creek		6,450,000
Weatherly		6,750,000
Post Brook		4,300,000
Chimney Trace		5,150,000
Towne Parc		2,735,831
6800 Peachtree		5,432,824
Highland Park		2,592,379
Minneapolis Community Development Agency, Minneapolis, Minn.	39,800,000	
Vantage Point		2,425,000
St. Anthony Place		425,000
Symphony Place		20,100,000
Fairfax County Redevelopment Authority, Fairfax, Va.	37,600,000	
Shenandoah Crossing		31,500,000
Seven Corners		6,065,000
Mesquite Housing Finance Corp., Mesquite, Tex.	33,500,000	
Clayton Hill		7,988,370
Pecan Ridge		4,770,000
Smith Summit		7,300,000
Grand Prairie Housing Finance Authority, Grand Prairie, Tex.	28,800,000	
Mill Valley		4,950,000
High Key		5,880,000
Windridge		9,100,000

Type of Construction	Amount Spent on Rehabilitation	Number of Units	Monthly Rent Range	Utilities Included in Rent	Percentage of Units Occupied by Low- or Moderate-Income Individuals	Complete or Partial Restrictions
New	•	30	403-460	[l]	86	None
New	•	21	383-940	N/A	42	None
New	•	100	383-630	[k]	47	No children except in two-bedroom
New	•	208	485-610	[o]	24	No children
New	•	328	505-670	N/A	10[e]	None
New	•	200	370-505	[o]	37	No children
New	•	223	360-495	[n]	[f]	No children
New	•	130	410-570	[o]	31	No children under 14 yrs.
New	•	144	395-495	[o]	27	None
Rehabilitated	2,735,831	132	400-495	[m]	48	No children
Rehabilitated	5,432,824	282	430-550	[m]	49	None
Rehabilitated	2,592,379	138	435-545	[m]	49	No children
Rehabitated	555,000	175	315-390	[j]	99	One building elderly only
Rehabilitated	425,000	21	262-593	[j]	67	None
New	•	250	506-825	[k]	32	None
New	•	640	372-705	[l]	53	None
Rehabilitated	1,924,214	283	361-465	[m]	94	No children in one-bedroom
New	•	318	295-520	[m]	69	None
New	•	210	320-575	[m]	74	None
New	•	254	425-615	[m]	50	None
New	•	164	280-440	[l]	69	None
New	•	208	340-495	[m]	76	None
New	•	336	320-560	[m]	47	No children

Housing Agency and Project Name	Housing Agency Total Bonds Issued in 1983	Project Bond Issue Amount
North Carolina Housing Finance Agency, Raleigh, N.C.	28,600,000	
Quail Forest		1,229,700
Parkwood East		3,360,000
Norfolk Redevelopment and Housing Authority, Norfolk, Va.	25,500,000	
Beechwood		4,700,000
Botetourt		1,000,000
Oakmont		4,395,000
North Shore		6,666,666
Housing Authority of St. Louis County, St. Louis, Mo.	21,200,000	
Elta Rose		1,100,000
Lucas Hunt		11,050,000
Kensington Square		12,000,000
Colorado Housing Finance Authority, Denver, Colo.	12,900,000	
Indian Tree		6,200,000
Hunter's Ridge		6,700,000
Cambray Park		8,678,400
Housing Authority of the City of Gainesville, Gainesville, Ga.	1,200,000	
Pine Cove		1,200,000
Total Selected Columns	**$1,207,600,000**	**$359,510,557**

Type of Construction	Amount Spent on Rehabilitation	Number of Units	Monthly Rent Range	Utilities Included in Rent	Percentage of Units Occupied by Low- or Moderate-Income Individuals	Complete or Partial Restrictions
New	•	48	336-435	[m]	57	None
New	•	128	330-445	[l]	47	No children in one bedroom
New	•	136	335-442	[m]	66	None
Rehabilitated	1,000,000	40	285-675	[l]	40	No children
Rehabilitated	4,353,338	456	310-326	[l]	98	None
[c]	•	212	365-456	[l]	55	None
Rehabilitated		200,000	80	236-258	[m]	86
Rehabilitated	2,000,000	606	307-421	[l]	81	None
Rehabilitated	2,100,000	510	315-425	[m]	63	None
New	•	168	375-490	[l]	58	None
New	•	240	365-545	[m]	57	None
New	•	256	353-533	[l]	57	No children over 2 years old
New	•	66	195-325	[m]	80	None
		11,844				

[a]All projects received section 8 project-based subsidies.

[b]Main Place and Allen Court were financed from the same bond issue.

[c]North Shore was a change of ownership. It was neither newly constructed nor rehabilitated.

[d]Since our visit Winterset has increased the percentage of units occupied by low- or moderate-income individuals to 24%.

[e]Since our visit North Hill has increased the percentage of units occupied by low- or moderate-income individuals to 20%.

[f]Tenant income information was not readily available for Weatherly.

[g]Monthly rents ranged from $195 to $940, averaging $432 for all tenants— averaging $373 for low-income tenants and $479 for non-low-income tenants.

[h]Sunrise management collected income information on new tenants only. Income data was available on only 25% of the tenants.

[i]Rent includes all utilities.

[j]Rent includes some utilities. (Tenant payments total $10 or less monthly.)

[k]Rent includes some utilities. (Tenant payments total $11 to $30 monthly.)

[l]Rent includes some utilities. (Tenant payments total $31 to $60 monthly.)

[m]Rent includes some utilities. (Tenant payments total $61 to $140 monthly.)

[n]Rent includes no utilities. (Tenant payments total $31 to $60 monthly.)

[o]Rent includes no utilities. (Tenant payments total $61 to $140 monthly.)

Methodology Used to Estimate Federal Revenue Loss From Tax-Exempt Bonds

Our estimate uses an economic model that describes how, in aggregate, investors adjust their portfolios to accommodate an increased supply of tax-exempt bonds. The results derived from the model are based on three key assumptions: (1) investors are free to move their capital among different investment opportunities to obtain the highest after-tax rate of return, (2) the total pool of savings available for investment is fixed and, therefore, not affected by an increase in the volume of tax-exempt bonds, and (3) each new issue of tax-exempt bonds for multifamily housing is a net addition to the outstanding total of tax-exempt assets including bonds.

The first assumption implies that if competition among borrowers to obtain funds exists, those offering the highest after-tax return (adjusted for risk) will obtain the funds. The second assumption implies that if, at interest rates prevailing before a new tax-exempt issue, all borrowers were able to obtain funds, then an increase in the demand for funds (supply of bonds) will cause interest rates to rise. This increase, which may be quite small, will be necessary to ration a fixed pool of savings for investment among borrowers. As interest rates rise, some borrowers are no longer willing to pay the market rate to obtain investors' savings. Interest rates will stop rising when the new rate is high enough that the available savings from investors is sufficient to allow all borrowers willing to pay that rate to obtain funds.

The key to determining the revenue loss lies in the third assumption. The implication of this assumption is that as interest rates rise to accommodate the increased demand for investor savings, borrowers who become unwilling to pay the market rate are not other municipal and state governments. This is because since no profit motive is involved, government borrowers can be assumed to be less interest-rate-sensitive than corporations. If this assumption holds, then investments paying income that is taxable will be replaced in some investors' portfolios by newly issued tax-exempt bonds.[1]

[1] Although it is generally believed that the demand of municipal borrowers for funds is less sensitive to interest rate increases than the demand of other borrowers, it is possible that our third assumption will not strictly hold. That is, in aggregate, some of the newly issued tax-exempt bonds might replace other tax-exempt assets in investors' portfolios. If this were to happen, then the reduction in taxable income and, therefore, the reduction in tax revenues, would be less.

The reduction in tax revenues would also be less if the second assumption does not strictly hold and, instead, the rise in interest rates resulting from the increased demand for funds (supply of bonds) stimulated saving. If this were to happen, then more savings would be available to ration among borrowers. Therefore, investors would be willing to hold additional tax-exempt bonds without an equivalent reduction in their holding of investments paying taxable income. This implies that the reduction in taxable income and, therefore, the reduction in tax revenues would be less.

On the basis of these assumptions, we applied the following two-step formula to estimate the annual federal tax loss for each new tax-exempt bond issue in 1983 and 1984. The face value of each new bond issue was

- multiplied by the interest rate of a comparable taxable corporate bond issue and then
- multiplied by the percentage difference between the yields of the tax-exempt and taxable bonds, expressed as the following ratio:

$$\frac{\text{taxable yield - tax-exempt yield}}{\text{taxable yield}}$$

The first step computes the amount of previously taxable income no longer subject to tax by multiplying the amount of newly issued tax-exempt bonds by the current interest rate for comparable taxable securities. Step two converts this amount into an annual tax loss by estimating the marginal tax rate of those investors who replace their investments that pay taxable income with tax-exempt bonds.[2] These investors are not necessarily the actual purchasers of the new tax-exempt bonds, some of whom, particularly those with very high marginal tax rates, might have bought the bonds to replace other investments paying tax-exempt income. Instead, they are likely to be investors in an income tax bracket for which the after-tax yield from a taxable security is the same as the yield from a tax-exempt bond. For example, assume an investor is in the 30-percent income tax bracket and purchased $10,000 of taxable securities paying an interest rate of 10 percent. This investor would earn interest income of $1,000 ($10,000 x 10 percent) and receive an after-tax yield of $700 ($1,000 minus $300 paid in taxes). Had this same investor purchased comparable tax-exempt bonds paying an interest rate of 7 percent, the yield would also be $700 ($10,000 x 7 percent), thus making the investor indifferent as to which type of security to purchase.

Therefore, at any given time, the tax rate at which investors would be indifferent would be determined by the percentage difference in interest rates between comparable taxable and tax-exempt securities.

In making our actual calculations of the federal revenue loss from tax-exempt bonds issued in 1983 and 1984, we used the actual interest rate

[2]The marginal tax rate, or tax bracket, is the percentage of additional taxable income that would go toward taxes.

paid on each bond and the interest rate paid on corporate bonds of comparable risk and maturity. We used the difference in interest rates on these bonds to calculate the appropriate marginal tax rate that we used to compute the revenue loss on each individual bond issue.[3]

Because these bonds generate income over many years, we calculated the tax loss in each year throughout the life of the bond. We then discounted future tax losses and totaled these discounted values to express the present value of the total revenue loss during the life of the bonds. We used an 8-percent discount rate, which is consistent with that used by the Department of the Treasury and the Joint Committee on Taxation in making overall estimates of federal revenue losses from all types of tax-exempt securities.[4]

Using the method we have described, we estimate that the approximately $5.3 billion of tax-exempt bonds issued to finance the construction or rehabilitation of multifamily rental housing in 1983 will cost the government about $1.1 billion (present value) in tax revenue over the life of the bonds. On the same basis, the $5 billion of bonds issued in 1984 will cost the government about $1.2 billion (present value) in tax revenues over the life of the bonds.

[3]The tax loss could be less if the supply of new tax-exempt bonds is sufficiently large relative to the existing stock of all assets. We have not changed any results due to this consideration because, in practice, the amount of tax-exempt bonds issued in this program has been very small relative to the stock of assets in the economy.

[4]We used an 8-percent discount rate to facilitate meaningful comparisons between our estimate and those of others who have used that rate. To calculate present values, we usually use a discount rate that reflects the government's borrowing costs. If we had used such a rate—which would be higher than 8 percent—in this analysis, our estimate of the present value of the revenue loss would have been somewhat smaller.

Description of Projects Visited Classified By Income of Occupants

Table VI.1: Projects Serving Below-Average-Income Households

Project (state)	Type	Average tenant income	Area renter median income	Average tenant income as percentage of area median income	Rents	Percentage of units occupied by low- or moderate-income households: No adjustment for family size	Percentage of units occupied by low- or moderate-income households: Adjustment for family size
Grand Meadows (Mich.)	New	$10,224	$15,158	67	$317-429	100	[a]
Seven Corners (Va.)	Rehab	16,128	19,587	83	361-465	94	84
Vantage Point (Minn.)	Rehab	11,291	13,826	87	315-390	99	93
Oakmont (Va.)	Rehab	12,803	13,266	97	310-326	96	86
Sunrise (Mich.)	Rehab	12,482	12,904	97	255-350	100	[a]

[a]Family size data were not available.

Figure VI.1: Grand Meadows Apartments, Grand Blanc, Michigan

Grand Meadows is a project for senior citizens located in Grand Blanc, a suburb of Flint, Michigan. Grand Meadows is newly constructed and charges rents comparable to rents charged in the area. Available amenities include security intercom systems, extra wide doorways and halls, activity rooms, large community room, and a laundry room.

Buildings

- Number: 1.
- Stories: 3.
- Type: low rise.
- Exterior construction: brick and aluminum.

Table VI.2: Grand Meadows Apartments—Units

Size in Square Feet

Number of units	Type of unit (bedrooms/baths)	Size	Rent[a]
89	1 / 1	552	$317-352[b]
12	2 / 1	816	414-429
101			

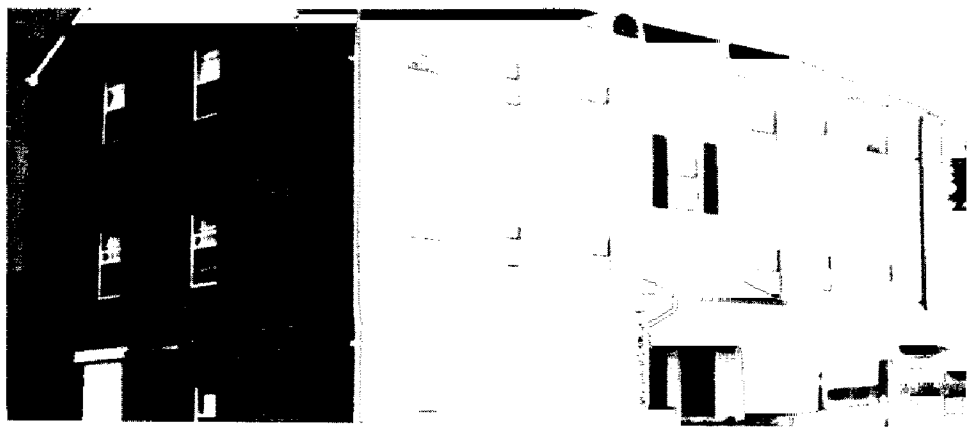
[a]Does not include electricity, estimated at $30/month.

[b]Varies on the basis of location in project. Rent is greatest for third-floor apartments, and least for first-floor apartments.

Profile

- Occupancy, Oct. 31, 1984: 59 percent.
- Number of tenants, Jan. 24, 1985: 168.
- Average tenant income: $10,224
- Number of lower income tenants: 60.
- Percentage of units occupied by lower income tenants: 100.

Figure VI.2: Seven Corners Apartments, Falls Church, Virginia



This rehabilitated project is located in suburban Falls Church, Virginia. Seven Corners charges rents generally lower than those charged in the area. Available amenities include laundry facilities, emergency call systems, and air conditioning.

Buildings

- Number: 54.
- Stories: 3.
- Type: low rise.
- Exterior construction: brick.

Table VI.3: Seven Corners Apartments—Units

Size in square feet

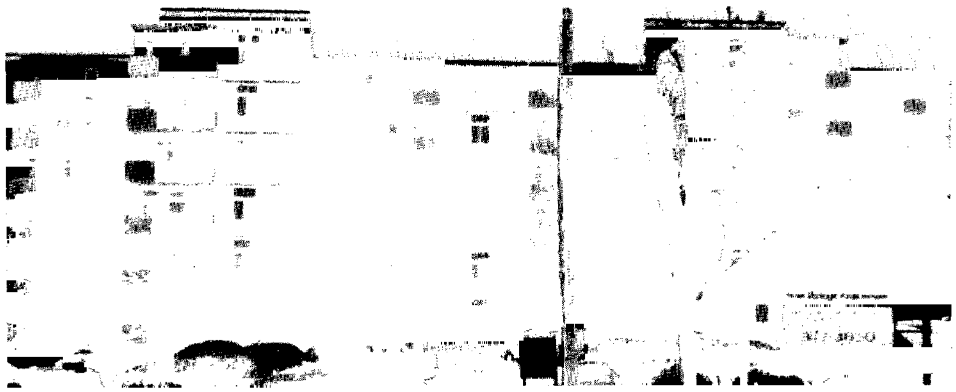
Number of units	Type of unit (bedrooms/baths)	Size	Rent[a]
142	1 / 1	639	$361-375
142	2 / 1	796	422-465
284			

[a]Does not include electricity, estimated at $25 to $70/month.

Profile

- Occupancy, Mar. 4, 1985: 95 percent.
- Number of tenants, Mar. 4, 1985: 270.
- Average tenant income: $16,129.
- Number of lower income tenants: 254.
- Percentage of units occupied by lower income tenants: 94.

Figure VI.3: Vantage Point Apartments, Minneapolis, Minnesota



Vantage Point, located near downtown Minneapolis, is a rehabilitated project charging rents generally lower than the Minneapolis area market rate. The area surrounding Vantage Point contains little market-rate housing. Most of the housing in the immediate vacinity is either publicly assisted or publicly owned. Eighty percent of the tenants were living in the project before it was rehabilitated. Available amenities in some units include carpeting and balconies.

Buildings

- Number: 3.
- Stories: 6.
- Type: high rise.
- Exterior construction: brick.

Table VI.4: Vantage Point Apartments—Units

Size in square feet)

Number of units	Type of unit (bedrooms/baths)	Size	Rent[a]
129	1 / 1	650	$315-325
46	2 / 1	750	355-390
175			

[a]Does not include electricity, estimated at $10/month.

Profile

- Occupancy, Mar. 7, 1985: 100 percent.
- Number of tenants, Mar. 7, 1985: 175.
- Average tenant income: $11,291.
- Number of lower income tenants: 173.
- Percentage of units occupied by lower income tenants: 99.

Figure VI.4: Oakmont Apartments, Norfolk, Virginia

Oakmont is a rehabilitated complex charging rents generally lower than the Norfolk area market rate. The project contains few amenities and serves primarily low- to moderate-income tenants. At the time of our visit, Oakmont was in the process of substantial rehabilitation. Available amenities include laundry facilities in each building.

Buildings

- Number: 19.
- Stories: 2.
- Type: low rise.
- Exterior construction: brick.

Table VI.5: Oakmont Apartments—Units

Size in square feet

Number of units	Type of unit (bedrooms/baths)	Size	Rent[a]
380	2 / 1	439-474	$310
76	3 / 1	561	326
456			

[a]Does not include electricity, estimated at $30/month.

Profile

- Occupancy, Jan. 24, 1985: 100 percent.
- Number of tenants, Jan. 24, 1985: 168.
- Average tenant income: $12,803.
- Number of lower income tenants: 165.
- Percentage of units occupied by lower income tenants: 98.

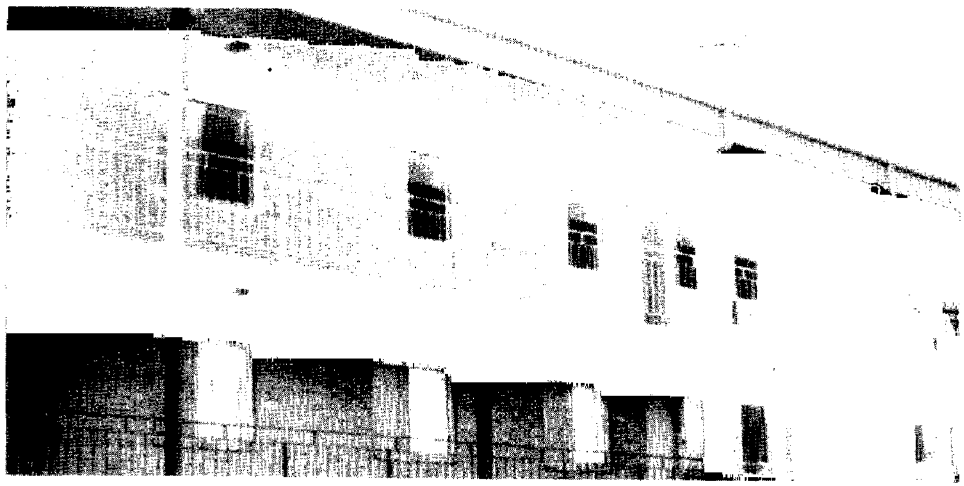


Figure VI.5: Sunrise Apartments, Detroit, Michigan

This rehabilitated project is located in a residential area of Detroit, Michigan. Sunrise charges rents generally lower than rents in the immediate area. The brochure advertising Sunrise states that "Sunrise Apartments offer the professional, the ultimate, in luxury apartment living, by giving you the perfect location in the Detroit area . . . ." Available amenities include air conditioning, balconies, swimming pool, laundry facilities, playground, and community building.

Buildings

- Number: 10.
- Stories: 3.
- Type: low rise.
- Exterior construction: brick.

Table VI.6: Sunrise Apartments—Units

Size in square feet

Number of units	Type of unit	Size	Rent[a]
	(bedrooms/baths)		
238	1 / 1	662	$256-300
96	2 / 1	743	330-350
334			

[a]Does not include electricity, estimated at $30 to $40/month.

Profile

- Occupancy, Feb. 4, 1985: 90 percent.
- Number of tenants, Feb. 4, 1985: 300.
- Average tenant income: $12,482.
- Number of lower income tenants: 300.
- Percentage of units occupied by lower income tenants: 100.

Table VI.7: Projects Serving Average- To Above-Average-Income Households

Project (state)	Type	Average tenant income	Area renter median income	Average tenant income as percentage of area median	Rents	Percentage of units occupied by low- or moderate-income households: No adjustment for family size	Percentage of units occupied by low- or moderate-income households: Adjustment for family size
Royalgate (Tex.)	Rehab	$13,336	$13,331	100	$260-400	86	79
Burbank Blvd. (Calif.)	New	15,163	14,946	101	403-460	86	71
Pine Cove (Ga.)	New	13,884	13,545	103	195-325	80	57
Lucas Hunt (Mo.)	Rehab	15,067	13,576	111	307-421	81	64
Elta Rose (Mo.)	Rehab	15,747	13,576	116	236-258	86	63
High Key (Tex.)	New	21,239	17,859	119	340-495	76	62
Oak Run (Tex.)	New	16,161	13,331	121	295-545	71	47
Westcreek (Ariz.)	New	17,495	14,402	122	305-445	74	57
Pecan Ridge (Tex.)	New	21,931	17,859	123	320-575	74	48
Clayton Hill (Tex.)	New	22,561	17,859	126	295-520	69	38
Mill Valley (Tex.)	New	22,568	17,859	126	280-440	69	38
Beechwood (Va.)	New	17,145	13,266	129	335-442	66	50
Hearthstone (Tex.)	New	17,361	13,331	130	222-369	70	44
Quail Forest (N.C.)	New	18,688	14,008	133	336-435	57	34
North Shore (Va.)	[a]	17,697	13,266	133	365-456	77	51
Monterey West (Fla.)	New	19,330	14,172	136	455	59	28
Greenhills (Md.)	New	27,533	19,587	141	425-525	64	49
Smith Summit (Tex.)	New	25,939	17,859	145	425-615	50	36
Windridge (Tex.)	New	26,241	17,859	147	320-560	47	23
Five Flags (Fla.)	New	21,338	14,172	151	330-470	54	26
Shenandoah Crossing (Va.)	New	29,936	19,587	153	372-705	53	[b]
Summit Station (Ga.)	New	27,724	17,935	155	390-575	42	13
Kensington Square (Md.)	Rehab	21,060	13,576	155	315-425	63	39
6800 Peachtree (Ga.)	Rehab	24,601	15,764	156	430-550	49	35
St. Anthony Place (Minn.)	Rehab	21,619	13,826	156	262-593	67	61
Hunter's Ridge (Colo.)	New	23,907	15,282	156	365-545	57	38
Parkwood East (N.C.)	New	21,931	14,008	157	330-445	47	15
Wood Knoll (Ga.)	New	28,152	17,935	157	395-655	37	16
Knights Bridge (Md.)	New	31,274	19,578	160	416-783	50	34
Wood Glen (Ga.)	New	28,700	17,935	160	460-635	31	12
Indian Tree (Colo.)	New	25,303	15,282	166	375-440	58	24
Towne Parc (Ga.)	Rehab	26,239	15,764	166	400-495	48	22

Project (state)	Type	Average tenant income	Area renter median income	Average tenant income as percentage of area median	Rents	Percentage of units occupied by low- or moderate-income households: No adjustment for family size	Percentage of units occupied by low- or moderate-income households: Adjustment for family size
West Winds (Fla.)	New	23,726	14,172	167	355-505	32	10
Cambray Park (Colo.)	New	26,021	15,282	171	353-533	57	38
Winter Creek (Ga.)	New	27,226	15,764	173	370-505	37	12
Highland Park (Ga.)	Rehab	27,983	15,764	178	435-545	49	24
Sherway Villa (Calif.)	New	26,661	14,946	178	383-630	47	24
Chimney Trace (Ga.)	New	29,021	15,764	184	395-495	27	10
Dunlap (Ariz.)	New	26,875	14,402	187	365-510	50	29
Post Brook (Ga.)	New	30,040	15,764	191	410-570	31	2
Summerwood (Ga.)	New	31,414	15,764	199	485-610	24	6

[a]Change of ownership—neither newly constructed nor rehabilitated.

[b]Family size data were not available.

Figure VI.6: Royalgate Apartments, San Antonio,Texas

Royalgate Apartments is located in San Antonio, Texas, and is a rehabilitated project originally constructed in 1965 (first phase) and 1968 (second phase). According to the advertising brochure, "Royalgate is an island of country within the city, with two large pools surrounded by woodland and courtyards and adjacent to Royalgate Park." Available amenities include two large pools, clubhouse facilities, covered parking, three laundry rooms, and extra storage rooms.

Buildings

- Number: 12.
- Stories: 2.
- Type: low rise.
- Exterior construction: brick and wood.

Table VI.8: Royalgate Apartments—Units

Size in square feet

Number of units	Type of unit	Size	Rent[a]
	(bedrooms/baths)		
112	1 / 1	578-655	$260-290[b]
41	2 / 1	896-1,000	365-400
153			

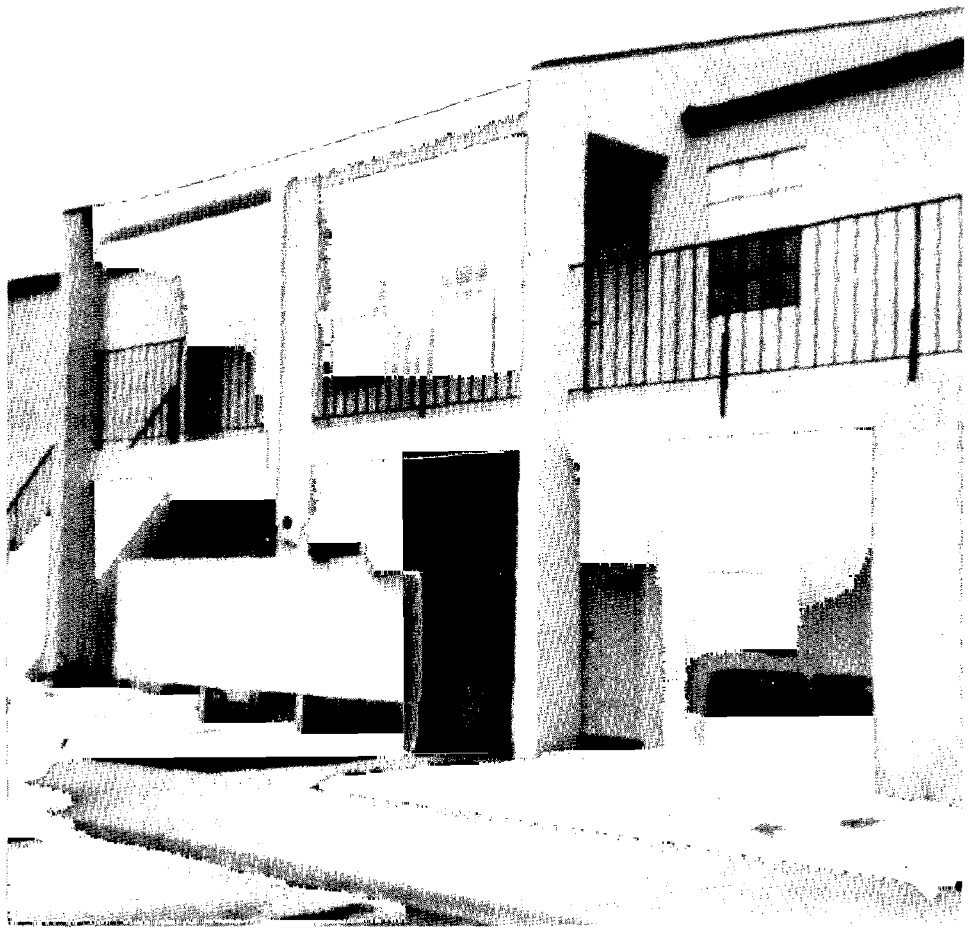
[a]Does not include electricity, estimated at $12 to $30/month during winter and $17 to $90/month during the summer.

[b]Rentals differ on the basis of apartment size.

Profile

- Occupancy, Jan. 18, 1985: 86 percent.
- Number of tenants, Jan. 18, 1985: 131.
- Average tenant income: $13,336.
- Number of lower income tenants: 113.
- Percentage of units occupied by lower income tenants: 86.

Figure VI.7: Pine Cove Apartments, Gainsville, Georgia



This newly constructed complex is located in an area that is experiencing a shortage of multifamily rental housing. Pine Cove charges rents generally below other rents in the area. Available amenities include laundry facilities, swimming pool, air conditioning, and balconies.

Buildings

- Number: 7.
- Stories: 2.
- Type: low rise.
- Exterior construction: wood and stucco.

Table VI.9: Pine Cove Apartments—Units

Size in square feet

Number of units	Type of unit (bedrooms/baths)	Size	Rent[a]
7	0 / 1	363	$195
35	1 / 1	513	250
24	2 / 1	653	325
66			

[a]Does not include electricity, estimated at $25 to $65/month.

Profile

- Occupancy, Nov. 1, 1984: 89 percent.
- Number of tenants, Nov. 1, 1984: 59.
- Average tenant income: $13,884.
- Number of lower income tenants: 40.
- Percentage of units occupied by lower income tenants: 68.

Figure VI.8: Five Flags Apartments, Orlando, Florida

Five Flags Apartments is a newly constructed project located in suburban Orlando, Florida, and is situated on a lake. Rents at Five Flags are typical of those charged for similar housing in the area. Available amenities include private patio or balcony, cable television, dishwasher, swimming pool, Jacuzzi, weight room, two racquetball courts, two lighted tennis courts, and laundry facilities.

Buildings

- Number: 26.
- Stories: 2.
- Type: low rise (garden style).
- Exterior construction: block and masonry.

Table VI.10: Five Flags Apartments—Units

Size in square feet

Number of units	Type of unit (bedrooms/baths)	Size	Rent[a]
248	1 / 1	579	$330-405[b]
80	2 / 1	686	405-470
328			

[a]Does not include electricity.

[b]Rents differ on the basis of location of apartment.

Profile

- Occupancy, Dec. 23, 1984: 99 percent.
- Number of tenants, Dec. 12, 1984: 326.
- Average tenant income: $21,388.
- Number of lower income tenants: 176.
- Percentage of units occupied by lower income tenants: 54.

Figure VI.9: Kensington Square Apartments, Florissant, Missouri

This rehabilitated project is located in a suburb of St. Louis, Missouri, and was originally constructed in 1965. Rents at Kensington Square are typical of those charged by similar projects in the area. Available amenities include private patio or balcony, air conditioning, dishwasher, laundry facilities, and two swimming pools.

Buildings

- Number: 36.
- Stories: 3.
- Type: low rise.
- Exterior construction: brick and wood.

Table VI.11: Kensington Square Apartments—Units

Size in square feet

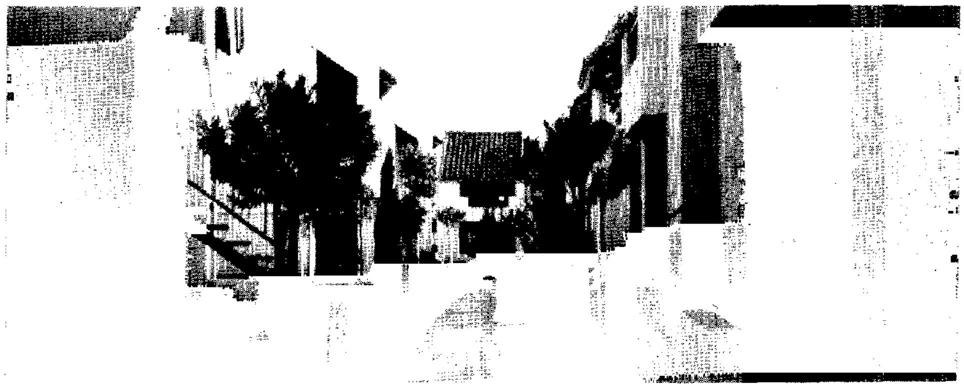
Number of units	Type of unit (bedrooms/baths)	Size	Rent[a]
132	1 / 1	736	$315
224	2 / 1	832	345
118	2 / 1.5	1,350	425
36	2 / 2	1,024	365
510			

[a]Does not include heat and electricity, estimated at $125/month.

Profile

- Occupancy, Dec. 23, 1984: 78 percent.
- Number of tenants, Dec. 23, 1984: 398.
- Average tenant income: $21,060.
- Number of lower income tenants: 321.
- Percentage of units occupied by lower income tenants: 63.

Figure VI.10: Dunlap Apartments, Phoenix, Arizona



This project, located in suburban Phoenix, Arizona, is a newly constructed project charging rents higher than those generally charged in the area. According to the project brochure, "Dunlap Square offers an unforgettable experience in the world of luxury living for both professional individuals and families . . . ." Available amenities include private patios, vaulted ceilings, heated competition swimming pool, children's pool, laundry facilities, playground, spa, covered parking, and oversized windows.

Buildings

- Number: 14.
- Stories: 2.
- Type: low rise.
- Exterior construction: stucco.

Table VI.12: Dunlap Apartments—Units

Size in square feet

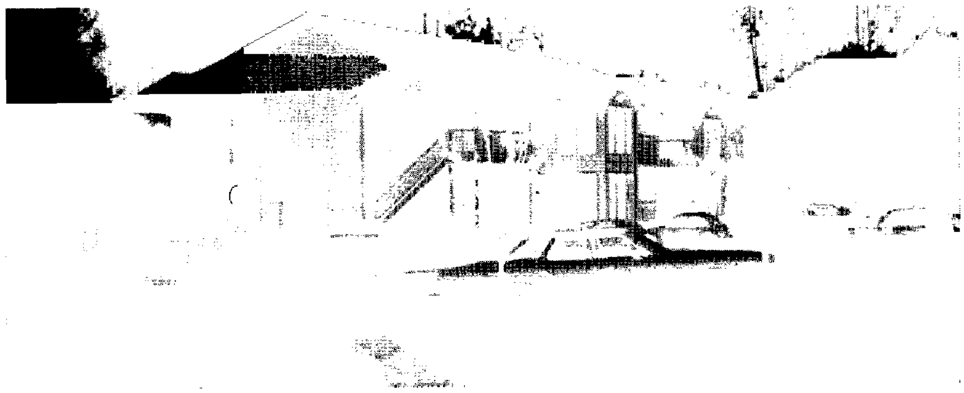
Number of units	Type of unit (bedrooms/baths)	Size	Rent[a]
92	1 / 1	664	$365-400
76	2 / 2	861	450-480
24	2 / 2	900	485-510
192			

[a]Does not include utilities, estimated at $30 to $125/month.

Profile

- Occupancy, Feb. 4, 1985: 83 percent.
- Number of tenants, Feb. 4, 1985: 160.
- Average tenant income: $26,875.
- Number of lower income tenants: 66.
- Percentage of units occupied by lower income tenants: 41.

Figure VI.11: Summerwood Apartments, Clarkston, Georgia



This project, located in suburban Clarkston, Georgia, is a newly constructed project charging rents higher than those generally charged in the area. According to the project brochure, "Summerwood is a collection of apartment homes designed for the active individual. These quality constructed homes have standard features not found in most apartments." Available amenities include private decks and patios, fireplace, swimming pool, electronic security system, custom crafted vanities and cabinitry, and tennis courts.

Buildings

- Number: 21.
- Stories: 3.
- Type: garden style.
- Exterior construction: vinyl.

Table VI.13: Summerwood Apartments—Units

Size in square feet

Number of units	Type of unit	Size	Rent[a]
	(bedrooms/baths)		
88	1 / 1	1,075	$485-505
120	2 / 2	1,245	540-610
208			

[a]Does not include utilities, estimated at $75/month.

Profile

- Occupancy, Oct. 31, 1984: 99 percent.
- Number of tenants, Oct. 31, 1984: 206.
- Average tenant income: $31,414.
- Number of lower income tenants: 52.
- Percentage of units occupied by lower income tenants: 25.

Table VI.14: Projects Serving Above-Average-Income Households

Project (state)	Type	Average tenant income	Area renter median income	Average tenant income as percentage of area median	Rents	Percentage of units occupied by low- or moderate-income households: No adjustment for family size	Percentage of units occupied by low- or moderate-income households: Adjustment for family size
Winterset (Ga.)	New	$36,575	$17,935	204	$475-755	9[a]	2
Amherst (Calif.)	New	32,526	14,946	218	383-940	42	32
Botetourt (Va.)	Rehab	29,608	13,266	223	285-675	40	26
North Hill (Ga.)	New	39,432	15,764	250	505-670	10[b]	1
Symphony Place (Minn.)	New	40,857	13,826	296	506-825	32	19

[a]Since our visit, the percentage of units occupied by low- or moderate-income tenants has increased to 20.

[b]Since our visit, the percentage of units occupied by low- or moderate-income tenants has increased to 24.

Figure VI.12: Winterset Apartments, Marietta, Georgia

Winterset Apartments, located in Marietta, Georgia, is a newly constructed project charging rents higher than those generally charged in the area. Available amenities include electronic security gate, lush landscaping, pool with sundeck and Jacuzzi, two lighted tennis courts, car wash and coin laundry, dishwasher, screen porch or sun room, and balcony. Selected units have fireplace with ceramic hearth, additional windows and doors, and greenhouse window in kitchen.

Buildings

- Number: 32.
- Stories: 3.
- Type: low rise.
- Exterior construction: wood.

Table VI.15: Winterset Apartments—Units

Size in square feet

Number of units	Type of unit (bedrooms/baths)	Size	Rent[a]
104	1 / 1	960	$475
148	2 / 2	1,230-1,245	575
50	3 / 2	1,435	670
302			

[a]Does not include electricity, estimated at $50 to $60/month.

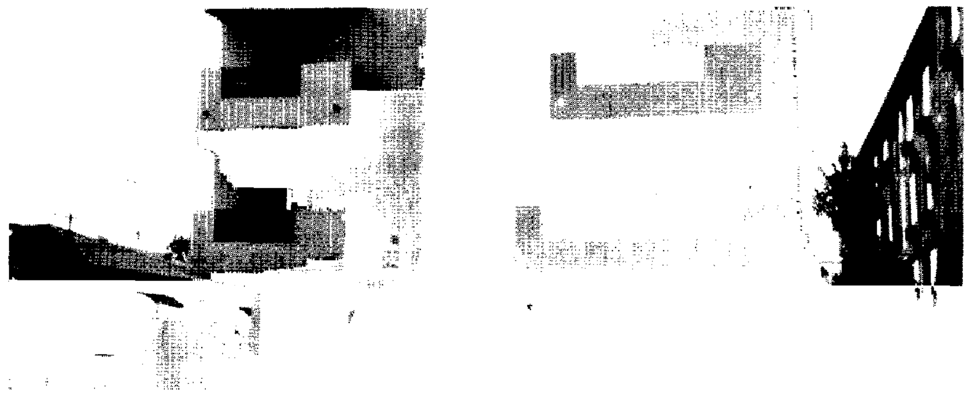
Profile

- Occupancy, Oct. 30, 1984: 100 percent.[1]
- Number of tenants, Oct. 30, 1984: 154.
- Average tenant income: $36,575.
- Number of lower income tenants: 14.
- Percentage of units occupied by lower income tenants: 9.[2]

[1]Based on 154 units completed at time of visit.

[2]Since our visit, Winterset has increased the amount of lower income tenants of 20 percent.

Figure VI.13: Amherst Apartments, Los Angeles, California



Amherst Apartments is a newly constructed project in Los Angeles, California. Its rents are typical of those charged for similar housing in the area. Two parking levels are located beneath the project. Available amenities include covered parking, laundry facilities, balconies (some units), security gate, and air conditioning.

Buildings

- Number: 1.
- Stories: 3.
- Type: low rise.
- Exterior construction: stucco and wood.

Table VI.16: Amherst Apartments—Units

Size in square feet

Number of units	Type of unit (bedrooms/baths)	Size	Rent[a]
6	0 / 1	540	$383-620[b]
9	1 / 1	600-650	740-775
6	2 / 2	750	860-940
21			

[a]Does not include electricity, estimated at $15 to $40/month.

[b]Varies on the basis of low-income designation versus market rate (studios only), location, and whether the apartment contains a balcony.

Profile

- Occupancy, Jan. 28, 1985: 95 percent
- Number of tenants, Jan. 28, 1985: 20.
- Average tenant income: $32,526.
- Number of lower income tenants: 9.
- Percentage of units occupied by lower income tenants: 45.

Figure VI.14: Botetourt Apartments, Norfolk, Virginia

Botetourt Apartments is an adult high-rise project located in a historic section of Norfolk, Virginia. The project is substantially rehabilitated. The studio apartments are rented to low- or moderate-income persons in order to meet the 20-percent set-aside requirement. Available amenities include laundry facilities.

Buildings

- Number: 1.
- Stories: 8.
- Type: high rise.
- Exterior construction: brick.

Table VI.17: Botetourt Apartments—Units

Size in square feet

Number of units	Type of unit (bedrooms/baths)	Size	Rent[a]
8	0 / 1	375	$285-325[b]
9	1 / 1	575-850	375-500
15	2 / 1	875	325-525
8	2 / 2	1,075	550-675
40			

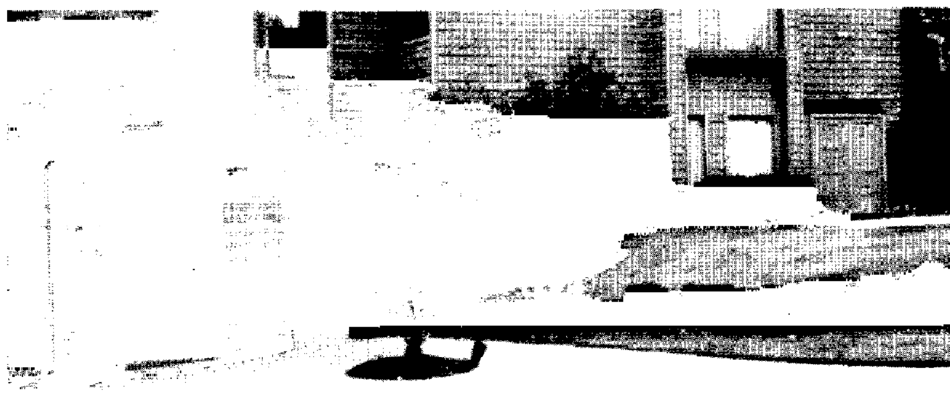
[a]Does not include electricity, estimated at $25 to $60/month.

[b]Varies on the basis of location of apartment in project.

Profile

- Occupancy, Jan. 23, 1985: 98 percent.
- Number of tenants, Jan. 23, 1985: 39.
- Average tenant income: $29,608.
- Number of lower income tenants: 9.
- Percentage of units occupied by lower income tenants: 23.

Figure VI.15: North Hill Apartments, Atlanta, Georgia



North Hill Apartments, located in the Metropolitan Atlanta area, is a newly constructed project charging rents generally higher than rents in the Atlanta area. Available amenities include electronic security gate, distinctive contemporary architecture, lush landscaping, pool with sun-deck/Jacuzzi, two lighted tennis courts, car wash and coin laundry, screened porch or sun room, and track lighting in dining room. Selected units have fireplaces with ceramic hearths, mirrored closet doors, green-house window in kitchen, and additional windows and doors.

Buildings

- Number: 46.
- Stories: 3.
- Type: garden apartments.
- Exterior construction: cedar.

Table VI.18: North Hill Apartments—Units

Size in square feet

Number of units	Type of unit (bedrooms/baths)	Size	Rent[a]
118	1 / 1	950	$505
193	2 / 2	1,230-1,245	585-605
17	3 / 2	1,435	670
328			

[a]Does not include utilities.

Profile

- Occupancy, Nov. 1, 1984: 82 percent.
- Number of tenants, Nov. 1, 1984: 270.
- Average tenant income: $39,432.
- Number of lower income tenants: 33.
- Percentage of units occupied by lower income tenants: 10.

Figure VI.16: Symphony Place Apartments, Minneapolis, Minnesota

Symphony Place Apartments, located in downtown Minneapolis, is a newly constructed project charging rents generally higher than those charged in the Minneapolis area. Available amenities include indoor pool, indoor tennis court, racquetball court, sauna, whirlpool, exercise room, party room, laundry room, security system, dishwashers, and central air conditioning.

Buildings

- Number: 1.
- Stories: 26.
- Type: high rise.
- Exterior construction: brick.

Table VI.19: Symphony Place Apartments—Units

Size in square feet

Number of units	Type of unit (bedrooms/baths)	Size	Rent[a]
129	1 / 1	691-1,035	$506-605
121	2 / 2	1,022-1,172	550-825
250			

[a]Does not include electricity, estimated at $15/month.

Profile

- Occupancy, Mar. 8, 1985: 98 percent.
- Number of tenants, Mar. 8, 1985: 246.
- Average tenant income: $40,857.
- Number of lower income tenants: 78.
- Percentage of units occupied by lower income tenants: 32.

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