A Case for Expanding Nonprofit Activities in Affordable Housing: An Analysis of Low-Income Housing Tax Credit Outcomes 1987-2006

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This article compares nonprofit outcomes in the Low-Income Housing Tax Credit (LIHTC) program to outcomes in the private and public sectors. It is based on cross-sectional analysis using data from the LIHTC database maintained by the United States Department of Housing and Urban Development (HUD). The database includes 29,225 LIHTC projects receiving allocations between 1987 and 2006. The findings from this research indicate that significant differences exist between LIHTC projects sponsored by nonprofits versus those sponsored by private organizations and public agencies. In particular, projects sponsored by nonprofits tended to be: smaller in scale, less focused on new construction, more concentrated in central cities, more apt to target specific populations, and more reliant on LIHTC dollars. Recommendations are made to expand the scope of nonprofit activities in affordable housing. We recommend that nonprofits adopt a regional approach to affordable housing, increase advocacy for targeted populations, and lobby federal and state government for stronger guidelines and mandates in the LIHTC program.

The Low-Income Housing Tax Credit (LIHTC) program is one of the largest sources of funding for affordable housing development in the United States. It is also a major source of funding for nonprofit supported housing development in inner-city neighborhoods across the country. Despite the central role that LIHTCs play in the development of affordable housing for the poor living in distressed cities, there is a dearth of empirical analysis comparing outcomes of nonprofit and other developers with regard to the implementation of the LIHTC program. This article expands the body of empirical analysis in this area. Our research hypothesis is that significant differences exist between LIHTC projects sponsored by nonprofit organizations versus those sponsored by private organizations and public agencies. We predict that projects sponsored by nonprofits are: smaller in scale, less focused on new construction, more concentrated in central cities, more apt to target specific populations, and more reliant on LIHTC dollars. The analysis of this hypothesis is based on cross-sectional analysis using data from the LIHTC database maintained by the United States Department of Housing and Urban Development (HUD).

This article begins with a review of the LIHTC program and its role the development of affordable housing in the United States. We then examine the niche that nonprofit developers fill in this program. This background material is followed by a discussion of the LIHTC database, our research methods, and the results from our analysis. The results from this research provide evidence to support our research hypothesis. We find evidence that significant differences exist between LIHTC projects sponsored by nonprofits versus those sponsored by private organizations and public agencies. In light of these findings, our concluding section includes recommendations to expand the scope of nonprofit activities in affordable housing. In particular, we argue that nonprofits adopt a regional approach to affordable housing in order to expand housing opportunities for the poor, increase advocacy for targeted populations, and lobby federal and state government for stronger guidelines and mandates in the LIHTC program.

The LIHTC Program and Nonprofit Developers

The LIHTC program was part of the Tax Reform Act of 1986. It included provisions for the syndication of LIHTCs (Schwartz 2006). Through this process, tax credits are sold to private investors by the federal government at a discount. This means that investors pay less than the face value of the tax credits they receive. The proceeds from the sales of tax credits are syndicated by intermediary organizations who also charge a fee for this service. After the syndication process is complete, the remaining funds are transferred though state governments to sponsors of LIHTC projects.

The Act requires that units built with LIHTC remain rental properties occupied by low-income households for at least 15 years. The Act also requires that 10 percent of each state's LIHTC allocation be set aside for projects with nonprofit sponsors. Since its inception, approximately $5 billion dollars has been authorized for the program annually. While the LIHTC program has become the largest single federal subsidy for affordable housing development, it remains distinct since it is part of the federal tax code and administered by state governments rather than HUD (Jolin 2000; Orlebeke 2000).

Over the years, a body of research has emerged which examines and critiques the LIHTC program. Much of this research focuses on program outcomes related to: the supply of affordable housing, the geographic distribution of LIHTC projects, the impact of tax credits on overall project funding, and the degree to which LIHTC funding is used to target specific populations in need of affordable housing. The examination of the role of nonprofit sponsors of LIHTC projects has been less central to this body of research. This void in the literature is noticeable, given the growing importance of nonprofit housing organizations in the contemporary period (Frisch and Servon 2006; Schwartz 2006; Silverman 2008). During the same time that the LIHTC program became the primary mechanism for funding affordable housing projects at the federal level, the implementation of housing policy was shifting to the state and local level (Keyes et al. 1996; Liu and Stroh 1998, Swanstrom 1999; Bockmeyer 2003). This article begins the process of linking the study of nonprofits to the broader discussion of geographic, equity, and fiscal outcomes of the LIHTC program.

In this article, we apply cross-sectional analysis and compare nonprofit, private, and public sector outcomes in the Low-Income Housing Tax Credit (LIHTC) program. The article uses data from the LIHTC database maintained by the United States Department of Housing and Urban Development (HUD). The database includes 29,225 LIHTC projects receiving allocations between 1987 and 2006. We hypothesize that significant differences exist between LIHTC projects sponsored by nonprofit organizations versus private organizations and public agencies. We predict that projects sponsored by nonprofits are: smaller in scale, less focused on new construction, more concentrated in central cities, more apt to target specific populations, and more reliant on LIHTC dollars.

Our hypothesis stems from the unique position of nonprofit developers of affordable housing when juxtaposed against developers in the private and public sectors. Although projects sponsored by nonprofits represent 23.2 percent of all LIHTC projects, they focused on an important subgroup in affordable housing. This subgroup consisted of units targeting difficult to house populations located in central cities. In particular, the homeless, elderly, disabled, and families on fixed incomes were served by nonprofit housing organizations. Past research suggests that the populations targeted by nonprofit developers of affordable housing tend to concentrate in central cities because of barriers to fair housing (Galster 1999; Yinger 1999; Sidney 2003; Sidney 2004; Schwartz 2006; National Fair Housing Alliance 2008; U.N. Committee on the Elimination of Racial Discrimination 2008). Projects focused on developing affordable housing for these populations routinely face opposition from not-in-my-backyard (NIMBY) groups and must overcome hurdles associated with exclusionary housing policies (Oakley 2002; Wilton 2002; Basolo and Hastings 2003; Lerman 2006).

Other developers of affordable housing have navigated around NIMBY groups and regulatory barriers to the development of affordable housing by adopting a strategy which targets a more localized, and less impoverished, population in need of such housing (Freeman 2004; McClure 2008). Affordable housing in the suburbs often serves a less impoverished clientele, since by design the LIHTC program serves households with incomes 50 percent-60 percent below an area's median family income (AMFI). By charging rents close to the maximum permitted under the AMFI, the poorest of the poor are priced out of LIHTC projects in the suburbs. LIHTC projects in central cities tend to have lower qualified rents in relation to AMFIs. In part, this is due to the targeting of projects to specific populations with incomes well below 50 percent of AMFIs. The adoption of lower qualified rents in central cities is also a byproduct of lower median rents in these locations. This situation suppresses the rental revenues that projects located in central cities can generate, and it contributes to the concentration of poorer residents in their respective LIHTC units.

Charging the highest possible rents is not an option for many nonprofit developers, since their affordable housing activities are driven by a mission to serve many of the hardest to house groups in society. The situation is further complicated by the fact that many nonprofit developers also have a mission to revitalize neighborhoods within their target areas. However, developing LIHTC properties does not automatically conflict with neighborhood revitalization goals of nonprofit developers. Often, these developers operate in environments impacted by private sector disinvestment and physical decay of the housing stock. In such environments, neighborhood revitalization focuses on stabilizing existing affordable housing and upgrading housing quality to a state that is decent, safe and affordable. Still, concerns often emerge over the potential for affordable housing development to result in the re-concentration of poverty in central cities (Roisman 1998; Cummings and DiPasquale 1999; Roberts and Harvey 1999; Stegman 1999; Poverty & Race Research Action Council 2004; Freeman 2004; McClure 2008; Muralidhara 2006; Poverty & Race Research Action Council 2008; Oakley 2008; McClure 2008).

The target populations of nonprofit developers are concentrated in urban areas where the costs of development are often elevated by the need to assemble sites, demolish existing structures, and reconfigure infrastructure (Porter 1995; Ross and Leigh 2000). In many cases, the construction of new units is not an option in these settings. As a result, the rehabilitation of existing units is often the only viable option for affordable housing development. In contrast to new construction, which is characterized by projects that follow a prepackaged design scheme, rehabilitation entails the added cost of designing around existing structures on a project-by-project basis. The need to incur such costs can result in an increase in per unit development expenses and a reduction in the number of units included in a project. These costs have made the planning and construction of affordable housing prohibitive for many private sector developers, since the business model they follow is driven by reducing such costs in order to optimize profits.

In their current state, nonprofit developers of affordable housing face a double-bind. They are excluded from initiating affordable housing developments in non-central city locations due to opposition from NIMBY groups and exclusionary housing policies. As a result, they are limited to developing affordable housing in areas where costs are inflated by pre-existing land use patterns and the need to rehabilitate existing properties. In light of this double-bind, specific recommendations are made to expand the scope of nonprofit activities in affordable housing. We recommend that nonprofits adopt a regional approach to affordable housing where LIHTC implementation focuses on increased advocacy for targeted populations and fair housing reform. This approach would include lobbying federal and state government for stronger guidelines and mandates in the LIHTC program along the lines suggested by Orfield (2005). This approach would also provide nonprofits with greater flexibility in the development process, so they could enhance the compatibility of affordable housing and neighborhood revitalization goals.

Introducing Nonprofit Developers to the LIHTC Debate

A core criticism that has emerged in relation to the LIHTC program is that projects receiving tax credits tend to cluster in low-income, racially concentrated areas (Cummings and Di-

Pasquale 1999; Muralidhara 2006; McClure 2008). Roisman (1998) and two subsequent studies by the Poverty & Race Research Action Council (2004; 2008) have indicated that this situation has been exasperated by a lack of mandates from the U.S. Department of Treasury and a lack of comprehensiveness in states' LIHTC Qualified Allocation Plans.1 These criticisms have received mixed reactions from practitioners and scholars (Roberts and Harvey 1999; Stegman 1999; Freeman 2004; McClure 2004; Orfield 2005). Freeman (2004) and McClure (2004) point out that LIHTC projects have gained access to the suburbs in recent years, but suggest that LIHTC projects in central cities are where the most impoverished populations are concentrated. Orfield (2005) frames this as a fair housing issue and argues for the coupling of LIHTC and fair housing policies. Despite its propensity to concentrate housing developments targeting the poorest populations in central cities, some studies have defended the overall benefits of the LIHTC program to low-income households. It has been argued that clustering of LIHTC projects is not as problematic as past research suggests. For example, a recent analysis of four metropolitan areas by Oakley (2008) found that LIHTC projects were not concentrated in the poorest neighborhoods, but they did cluster near other LIHTC and subsidized properties. It has also been suggested that projects that target families with children were less likely to cluster in low-income, minority areas than other LIHTC projects (Abt Associates Inc. 2006).

In addition to concerns about the geographic distribution of LIHTC projects, researchers have critiqued the financial stability of affordable housing funded by the program. Wallace (1998) and Deng (2005) question the cost-effectiveness of LIHTC projects in comparison to the use of market-based rent vouchers. They argue that affordable housing development is feasible in tight housing markets, but in other areas the use of rental vouchers is more cost-effective. McClure (1990; 2000) and Schwartz (2006) add that the LIHTC program by itself does not cover all the costs of affordable housing development. As a result, sponsors of projects using LIHTCs must find additional funding to leverage development. These studies also indicated that the ability of the LIHTC program to infuse funds into direct project development is hampered by high costs associated with the tax credit syndication process. Schwartz and Melendez (2008) point out that the long-term sustainability of LIHTC projects is further threatened by the lack of funding for unit maintenance and upgrading after tax credits expire. Melendez et al. (2008) indicate that the risk of projects being converted to market-rate properties is lessened when, among other factors, a nonprofit sponsors a LIHTC development.

There is ongoing research and policy dialogue about the ability of the LIHTC program to house targeted populations, the geographic concentration of projects, their cost-effectiveness, and the sustainability of units developed under the program. In light of these debates, this article contrasts LIHTC outcomes of nonprofit developers to those of other developers in the public and private sectors. This comparison produces a refined set of policy recommendations related to the distribution of LIHTC funds by sector.

[1] LIHTC Qualified Allocation Plans are developed on a state by state basis. These plans set the policy parameters for the geographic distribution of tax credits and the characteristics of the rental developments to which they are allocated.

Methods and Data

This research is based on cross-sectional analysis using data from the LIHTC database maintained by the United States Department of Housing and Urban Development (HUD). The database includes 29,225 LIHTC projects receiving allocations between 1987 and 2006. The database includes information about the size, location, financing, targeted populations, and other characteristics of LIHTC projects. Information for the database was gathered by HUD using the LIHTC Database Data Collection Form, which is distributed to tax credit project sponsors when funds are allocated. The database is publicly available at the LIHTC database website.

A total of 22,768 organizations responded to HUD's LIHTC Database Data Collection Form. A total of 5,288 (23.2 percent) of the sponsors were nonprofit organizations and 17,480 (76.8 percent) were private organizations and public agencies. The variables used in this analysis were drawn from HUD's LIHTC database and included measures of project characteristics, geographic location, targeted populations, financing, and the nonprofit status of sponsors of LIHTC projects.[2] An examination of correlation coefficients for the variables used in this analysis revealed that they were intercorrelated. This precluded the use of multivariate analysis. Consequently, the analysis presented in this article focuses on independent sample t-tests comparing the characteristics of LIHTC projects with nonprofit sponsors to those of LIHTC projects with private and public sector sponsors. The independent sample t-tests were calculated using the software Statistical Package for the Social Sciences (SPSS).

Nonprofit LIHTC Outcomes

General Characteristics

There were a number of significant differences between LIHTC projects with nonprofit sponsors and those with sponsors in other sectors. Table 1 summarizes independent sample t-test results comparing a number of general characteristics of nonprofit sponsors of LIHTC projects to those of private and public sector sponsors.[3] Two measures focused on project size. The first examined the average number of housing units per project. This measure showed that on average, projects with nonprofit sponsors had 8.7 fewer units. This difference was significant at the .001 level. The second measure which focused on project size examined the average number of low-income units per project. The average project with a nonprofit sponsor had 6.2 fewer low-income units and this difference was significant at the .001 level. These two statistics highlight the degree to which projects sponsored by nonprofit organizations were smaller. This suggests that nonprofit developers were likely to face added constraints related to project costs which resulted in fewer units being produced. Some of these constraints may have included: higher acquisition costs for development sites, added

[2] HUD's LIHTC Data Collection Form only asked if a project has a nonprofit sponsor. Respondents who answered no to this question were not probed to identify if the sponsor was from the private or public sector. HUD should consider expanding the response categories on the LIHTC Data Collection Form to address this limitation in the database.

[3] Public and private sector sponsors of LIHTC projects are grouped together in this analysis because HUD's LIHTC Database Data Collection Form only asked if a project has a nonprofit sponsor. Projects without a nonprofit sponsor are not asked to identify their private or public sector status.

Table 1. Independent Sample T-Test Results Comparing General Characteristics of LIHTC Projects by Type of Sponsor 1987-2006

	Nonprofit Sponsor (n=5,288)	Private & Public Sector Sponsor (n=17,480)	T-Value
Average Number of Units	53.7	62.4	8.992 ***
Average Number of Low-Income Units	51.0	57.2	7.083 ***
Proportion of Units Low-Income	96.3	96.2	-0.521
Type of Construction			
Percent New Construction	58.9	62.3	4.374 ***
Percent Acquisition and Rehab (A/R)	37.6	36.1	-1.938 +
Percent Both New Construction & A/R	3.3	0.6	-10.541 ***
Percent Existing	0.1	0.9	8.811 ***
Census Tract Metro or Non-Metro			
Percent Metro/Non-Central City	25.3	29.8	6.199 ***
Percent Metro/Central City	53.6	43.5	-12.260 ***
Percent Non-Metro	21.2	26.7	8.107 ***
US Census Region			
Percent Northeast	25.0	14.0	-16.855 ***
Percent Midwest	28.3	28.3	-0.042
Percent South	24.7	41.8	24.251 ***
Percent West	22.0	16.0	-9.464 ***

*+ p<.10, * p<.05, ** p<.01, *** p<.001*

demolition and land clearance costs, and higher planning and development costs associated with the characteristics of the communities where nonprofits were located. Many of these issues are related to other characteristics of nonprofit sponsors which are examined below.

Another set of distinctions between LIHTC projects sponsored by nonprofits and other projects involved the type of construction. On average, nonprofit sponsors worked on 3.4 percent fewer projects involving new construction. This difference was significant at the .001 level. In contrast, nonprofit sponsors worked on 1.5percent more projects involving acquisition and rehabilitation, and 2.7 percent more projects involving a mixture of new construction and acquisition / rehabilitation. These differences were significant at the .10 and .001 levels respectively. This supports the assertion that nonprofit developers are more likely to incur additional costs associated with specific project-by-project design elements of acquisition and rehabilitation activities, while other developers are more likely to apply prepackaged design schemes to new construction.

The niche filled by nonprofit sponsors became clearer when the geographic location of project was examined. On average, nonprofit sponsors had 4.5 percent fewer projects in non-central city locations of metropolitan areas and 5.5 percent fewer projects in non-metropolitan areas. Both of these differences were significant at the .001 level. In contrast, nonprofit sponsors worked on 10.1 percent more projects in central city locations than private and public sector sponsors. This difference was significant at the .001 level. Significant regional differences also existed at the .001 level, with nonprofit sponsors being more concentrated in the Northeast while other private and public sector sponsors clustered in the South and West. These findings support the argument that nonprofits occupy an urban niche in the affordable housing industry. In particular, this niche is concentrated in older, northeastern industrial cities. In addition to having aging infrastructure and stagnant or declining populations, these cities are also located in metropolitan areas with some of the highest levels of disinvestment, poverty and racial segregation in the United States (Bluestone and Harrison 1982; Jargowsky 1998; Massey and Denton 1998; Farley and Danzinger 2002; Dreier 2005; Rae 2005; Ellen 2008; Massey 2008).

Project Targeting

Most LIHTC projects target specific populations. Table 2 summarizes independent sample t-test results comparing projects' target populations across the two types of sponsors examined in the analysis. In general, nonprofit sponsors worked on 2.9 percent more projects targeting specific populations than private and public sector sponsors. This difference was also significant at the .001 level. By itself, this finding is important. Yet, significant distinctions exist between target populations which are also relevant to this analysis.

Nonprofit sponsors worked on 8.1 percent more projects targeting the disabled and 7.1 percent more projects targeting the homeless. These differences were significant at the .001 level. Nonprofit sponsors also worked on 2.4 percent more projects targeting the elderly. This difference was significant at the .05 level. In contrast, nonprofit sponsors worked on 6.9 percent fewer projects targeting families. This difference was significant at the .001 level. Nonprofit sponsored LIHTC projects were generally more likely to target specific populations, which reduced their focus on projects targeting families. In contrast, private and public sector sponsors tended to narrow the range of target populations accommodated by their projects by focusing on households at the upper end of income eligible groups based on AMFIs. Instead of specializing in the development of housing for specific target populations like nonprofits, they attempted to address the affordable housing needs of a more localized, and less impoverished, low-income population. In part, these distinctions reflect the mission of many nonprofits, which focus on serving disadvantaged groups in society.

Project Funding

In many respects, LIHTC funding reflects the manner in which the general characteristics and target populations vary between the types of project sponsors. Table 3 summarizes independent sample t-test results comparing project funding across the two types of sponsors

Table 2. Independent Sample T-Test Results Comparing LIHTC Project Targeting by Type of Sponsor 2003-2006

	Nonprofit Sponsor (n=5,288)	Private & Public Sector Sponsor (n=17,480)	T-Value
Percent Targeting a Specific Population	93.5	90.6	-4.239 ***
Targets by Specific Population			
Percent Targeting Families	54.8	61.7	5.347 ***
Percent Targeting the Elderly	30.0	27.6	-2.018 *
Percent Targeting the Disabled	18.5	10.4	-8.146 ***
Percent Targeting the Homeless	8.9	1.8	-10.438 ***

Note: Data for targeting by specific population was not reported until 2003 and 2006 respectively. This information was linked to the initial year funding was received for projects receiving multi-year LIHTC allocations.
*+ p<.10, * p<.05, ** p<.01, *** p<.001*

examined in the analysis. On average, projects with nonprofit sponsors received $123,476 more in tax credits than projects with private and public sector sponsors. This difference was significant at the .001 level. A higher percentage of nonprofit sponsors (2.8 percent more than private and public sector sponsors) also benefited from federal and state project-based rent assistance contracts after projects were completed. Higher levels of rent assistance seem to complement the niche that nonprofit developers fill in the affordable housing industry, since they tend to serve a more impoverished segment of low-income renters (McClure 2004).These differences suggest that projects with nonprofit sponsors were able to offset some of the additional costs of acquisition and rehabilitation activities characteristic of affordable housing development in central cities. Some would argue that access to more LIHTC dollars per project and project-based rent assistance reduced the need to identify additional funding to leverage affordable housing development.

This supposition is supported by data related to the percent of projects receiving additional funding from various programs administered by HUD. Nonprofit sponsors received funding from the community development block grant program (CDBG) and the HOME block grant program 11.4 percent and 23.4 percent less often than other sponsors. Both of these differences were significant at the .001 level. Yet, this begs the question as to whether greater access to CDBG and HOME dollars would allow nonprofit developers to close the gap in the size of their projects versus those of other developers. In essence, the size of projects developed by nonprofits may be stunted due to limited access to CDBG and HOME funds. However, these smaller, geographically concentrated projects targeted a variety of special populations which remain concentrated in central cities due to existing impediments to fair housing and the manner in which rents are set in relation to AMFIs. Although non-

Table 3. Independent Sample T-Test Results Comparing LIHTC Project Funding to Type of Sponsor 2003-2006

	Nonprofit Sponsor (n=5,288)	Private & Public Sector Sponsor (n=17,480)	T-value
Average Annual Tax Credits Allocated	$322,826	$199,350	-17.107 ***
Sources of Additional Funding from HUD			
Percent Receiving CDBG Funds	3.9	15.3	12.188 ***
Percent Receiving HOME Funds	14.8	38.2	18.922 ***
Percent Receiving HOPE VI Funds	2.1	1.7	-0.849
Dollar Amount of Funding from HUD			
Average Amount of HOME Funds	$535,129	$762,175	1.812 +
Average Amount of CDBG Funds	$764,429	$728,422	-0.633
Average Amount of HOPE VI Funds	$2,487,128	$3,094,799	0.592
Percent Receiving a Federal or State Project-Based Rental Assistance Contract	16.0	13.2	-2.095 ***

Note: Data for sources of other federal funding and allocation amounts was not reported until 2003 and 2006 respectively. This information was linked to the initial year funding was received for projects receiving multi-year LIHTC allocations.
*+ p<.10, * p<.05, ** p<.01, *** p<.001*

profits garnered more tax credits per project and received more project-based rental assistance, smaller LIHTC project sizes impede the ability of nonprofits to develop economies of scale in their affordable housing activities.

Conclusions

Expanding the Scope of Nonprofit LIHTC Activities

Although exploratory, the results from this article suggest that with targeted policy reform LIHTC activity among nonprofit sponsors can be expanded. The expansion of nonprofit participation in the LIHTC program should be driven by three factors: an increased emphasis on regional affordable housing development, a greater emphasis on developing projects for targeted populations (particularly the elderly, disabled, and homeless), and increased lobbying efforts to garner stronger guidelines and mandates from the U.S. Department of Treasury in relation to how states develop and implement LIHTC Qualified Allocation Plans. The adoption of public policies that follow this three-pronged strategy would move in the direction of enhancing the role of nonprofits in affordable housing and addressing past critiques of the LIHTC program.

A core critique of the LIHTC program has been that projects are concentrated in low-income, minority communities. On the national level, 46 percent of all LIHTC projects are located in central cities. Among nonprofit sponsors, projects cluster in central cities at higher rates. The tendency for LIHTC projects to concentrate in central city locations raises a number of equity concerns. In particular, the clustering of LIHTC projects in central city locations runs counter to many of the goals of federal fair housing legislation, which focuses on providing individuals with housing choices across metropolitan areas. This is particularly troubling given that nonprofit developers target their LIHTC projects towards clientele who are members of some of the same groups protected under federal fair housing legislation.

The coupling of federal and state project-based rental assistance contracts with LIHTC projects can potentially compound this problem. This is especially problematic in locations where mobility counseling for recipients of rental assistance is lacking. There is a need for a greater emphasis on regional implementation of the LIHTC program in order to ensure that specific target populations have access to LIHTC units in non-central city locations. This shift in focus should occur in coordination with parallel efforts to geographically disperse public and social services that low-income households rely upon. Regional implementation of the LIHTC program would allow for affordable housing development to occur in coordination with efforts to enhance housing choices, access to social services, educational opportunities and employment across metropolitan areas.

Some may counter that the LIHTC program provides central cities with a valuable tool for physical redevelopment, but this should not occur at the expense of housing choice and mobility opportunities for the poor. In its current state, there has been a tendency to ghettoize LIHTC projects which serve the poorest and most visible segments of the low-income population. As a result, the LIHTC program has faced growing criticism for perpetuating broader patterns of segregation and exclusion in society. The continued concentration of LIHTC projects that serve the homeless, disabled, elderly, and most impoverished in central cities can potentially lead to the stigmatization of the program. Such stigmatization would be analogous to the pillory of public housing during the 20th century. Despite the popularity of the program among investors and developers of affordable housing, it could face growing resistance from neighborhood-based and other grassroots organizations if LIHTCs gain a negative connotation.

In addition to the adoption of a regional implementation strategy for the LIHTC program, a greater emphasis needs to be placed on advocacy for projects designed to meet the needs of targeted populations. This type of advocacy would focus on coordinating the planning of LIHTC projects with nonprofits and public agencies at the local, regional and state levels responsible for social services, education, fair housing enforcement, workforce development and other programs that assist targeted populations. Intermediary organizations that syndicate tax credits are uniquely positioned to lead advocacy efforts to amend states' LIHTC Qualified Allocation Plans. These efforts should focus on incorporating interagency coordination aimed at forwarding the interests of nonprofits and their target populations into the LIHTC allocation and monitoring processes.

In addition to amending LIHTC Qualified Allocation Plans at the state level, advocacy should focus on three related aspects of policy. First, the U.S. Department of Treasury should be pressured to strengthen its guidelines and mandates related to the LIHTC program. Currently, a 10 percent set-aside for nonprofit participation exists. Many states exceed this level of nonprofit participation in their annual LIHTC allocations. However, others do not, particularly states in the South and West. The current set-aside requirement for nonprofit participation should be increased in order to encourage comparable levels of nonprofit participation across the nation. Second, states should be pressured to give added consideration to LIHTC project proposals that set rents substantially below 50 percent of AMFIs. This change in policy would reward developers for minimizing the rent burden on low-income tenants and create an incentive to abandon the practice of setting rents at the upper end of AMFIs which has been associated with privately developed suburban projects.

Finally, intermediaries and nonprofits should seek HUD's assistance in pressuring local government to reorder priorities related to CDBG and HOME allocations. Local government should give extra consideration to proposals for CDBG and HOME assistance that would allow LIHTC projects to meet or exceed the average number of units in similar projects regionally. Greater access to CDBG and HOME dollars would leverage LIHTC projects in central cities and allow them to develop economies of scale that could promote their long-term sustainability. Nonprofits fill a vital niche in affordable housing markets. They are a critical link in the development chain with respect to affordable housing for targeted populations like the elderly, disabled, homeless, and low-income families. In addition to sponsoring affordable housing projects for these groups, nonprofits fill a vital advocacy role for these populations' interests. The nexus between development and advocacy is not as easily achieved by project sponsors in the public or private sector.

The LIHTC program is a uniquely American mechanism for promoting the development of affordable housing. At its heart, it is a market-based program. Funding for affordable housing is generated through the sale of tax credits to investors. These sales occur at a discount, which literally means that investors pay less than the face value of the tax credits they receive. The proceeds from the sales of tax credits are syndicated by intermediary organizations who also charge a fee for this service. After the syndication process is complete, the remaining funds are transferred through state governments to sponsors of LIHTC projects. It is at this point that nonprofit sponsors play a key role in shifting the emphasis from private profit to public benefit. Nonprofit sponsors are uniquely positioned to develop properties for targeted populations and advocate for their interests. With a regional focus and support from state and federal agencies, nonprofits could also link their advocacy work to broader equity goals in society.

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