

# LIHTC MONTHLY REPORT

A MONTHLY PUBLICATION OFFERING NEWS, OPINION, FEATURES AND COMMENTARY ON THE LOW-INCOME HOUSING TAX CREDIT INDUSTRY

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## Proposed Federal Budget Dismays Housing Industry Professionals and Organizations

By Alex Ruiz, Staff Writer, Novogradac & Company LLP

In his federal budget request released last month, President George W. Bush makes several proposals of significance to the affordable housing community. The proposed budget provides \$28.5 billion in funding for the U.S. Department of Housing and Urban Development (HUD) in 2006 - a cut of 11 percent from 2005. The request also includes several proposals for minor adjustments to some programs, substantial reform of others and the elimination of several more.

The affordable housing and community development community has expressed concern about some of the cuts proposed in Bush's budget, but the Administration has defended its position vigorously. HUD Secretary Alphonso Jackson said the budget signals a continued commitment to increasing record homeownership and ending the most chronic forms of homelessness. "This budget reflects some of the tough choices we must make to continue meeting our nation's key priorities," Jackson said. "Our commitment to expanding economic opportunity through homeownership continues and we will make certain we house and serve those who are most vulnerable."

### Tax-Exempt Bonds

The budget proposes to repeal the \$150 million limit on the volume of outstanding non-hospital tax-exempt bonds for 501(c)(3) organizations. In explaining the revenue proposals included in the budget proposal, the Treasury Department says that the \$150 million limit results in complexity and provides disparate treatment depending on the nature and timing of bond-financed expenditures. The budget proposal also would repeal the current residential rental property limitation, effective for bonds issued after the date of enactment. Under current law, the use of residential rental property by a 501(c)(3)

organization would be a qualifying use only to the extent it did not constitute an unrelated trade or business. Treasury says this limitation, like the \$150 million limit, results in complexity and provides disparate treatment for new and existing property used by 501(c)(3) organizations. For example, an assisted living facility may or may not constitute residential rental property, depending in part on the amount of nursing services provided. Issuers must also determine whether existing property satisfies the low-income set-aside or rehabilitation requirements.

### Single Family Affordable Housing Tax Credit

This year marks the fifth time Bush has proposed the creation of a Single Family Homeownership Tax Credit to increase the supply of single-family affordable homes. Under the plan, builders of affordable homes for middle-income purchasers will receive a tax credit awarded by state housing finance agencies. To be eligible for the credit, single-family developments must be located in a census tract with median income equal to 80 percent or less of area median income, with occupancy limited to homebuyers in the same income range. In total, the proposed tax credit would provide \$2.5 billion over five years. State housing finance agencies would be given credit authority equal to the amount provided for LIHTCs, which in 2004 was the greater of \$2.075 million or \$1.80 per capita. For more information on the creation of a single family housing credit, please visit [www.homeownertaxcredit.com](http://www.homeownertaxcredit.com).

### Section 8

The overall appropriation for the Section 8 account is approximately \$15.8 billion, an increase of roughly \$1 billion from the amount enacted for FY 2005. As it did in last year's version, HUD is again proposing separate appropriations for the Housing Choice Voucher

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programs and the Project Based Section 8 accounts. The proposed appropriation for Section 8 rental vouchers, approximately \$14.1 billion, is \$734 million, or 5.4 percent, more than last year's amount. The FY 2006 budget proposal also continues last year's budget-based funding system, a new system for calculating each public housing agency's (PHA) voucher funds that was established last year. In addition, although the budget does not contain regulatory reform, HUD has made it clear that it will re-propose a Section 8 flexible voucher bill sometime this year, one that will be similar to its past proposals.

## HOPE VI

The White House again not only proposes the elimination of funding for HOPE VI, but it also suggests rescinding \$143 million in funding that Congress appropriated for the program a few months ago. As in previous years, the industry continues to back the program and argue for its renewal. "There remains a tremendous need for HOPE VI," the Council of Large Public Housing Agencies (CLPHA) said in a statement released last month. "HUD continues to receive approximately three applications for every grant it can award. By the department's own estimates, HOPE VI has leveraged between \$5 billion and \$8 billion of private investment in communities across the country. HOPE VI has, and continues to receive, strong bi-partisan support in Congress. The proposal to recapture the fiscal year 2005 HOPE VI appropriation stands in direct opposition to the congressional mandate."

## Rural Housing Programs

The rural housing section of the 2006 Administration budget cuts the Section 515 direct rental housing loan program from \$100 million in 2005 to \$27 million in 2006, while doubling the Section 538 guaranteed multifamily loan program to \$200 million. The budget also includes \$214 million for rural housing vouchers to help tenants displaced due to Section 515 loan prepayments. Other rural allocations include: \$650 million for rural rental assistance, \$1 billion for direct Section 502 home loans, and \$3.681 billion for guaranteed Section 502 loans.

## New Grant Would Replace CDBG and 17 Other Programs

Among the most controversial requests in the budget is Bush's proposal to create a new \$3.7 billion economic and community development program within the Department of Commerce. The Strengthening America's Communities (SAC) Grant program is a single, unified grant program that would essentially replace 18 economic and community development programs that have been dubbed "ineffective or duplicative" by the White House Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART) - programs such as Community Development Block Grants (CDBG).

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The 18 programs that would be included in the SAC grant program are only a fraction of the total number of programs slated for reduction or elimination; the White House has asked Congress to cut and/or reduce a total of 150 different programs. This is more than twice the number of programs slated for cuts in last year's proposal. *Forbes* reports that last year the administration proposed to eliminate 65 programs and substantially reduce outlays in 63 more. In the end, only four programs were eliminated and funding levels for 20 more were cut by notable margins.

Asked at a press conference on February 7 about the extensive cuts, specifically to programs that served disadvantaged populations, Bush said they were tied directly to results. "The important question that needs to be asked for all constituencies is whether or not the programs achieve a certain result. In other words, what is the goal of a particular program? And if that goal isn't being met, the question ought to be asked, why isn't the goal being met? And that's the questions we've been asking. And after a while, we get tired of asking that question," Bush said.

### Congressional, Industry Response

The president's budget proposal is only the first step in the annual appropriations process. Congress will consider the proposal as it develops its appropriations bills in the coming months. However, *MSNBC* reports the Administration may face an uphill battle on some fronts, specifically noting early indications of resistance that emerged in Congress toward the SAC grant proposal. For the proposal to pass, Bush would have to win the consent of four appropriations subcommittees, as well as the Senate Banking Committee and the House Financial Services Committee. Sen. Christopher S. Bond (R-Mo.), who chairs the appropriations subcommittee that funds HUD, told *MSNBC* that the proposal "makes no sense."

The industry has panned the Administration's proposed budget widely and some claim it is at odds with its own stated goals of increasing homeownership and ending homelessness. "We hear frequently from this administration about its commitment to help working families buy homes, to end homelessness, to encourage public-private partnerships and self sufficiency," said Sunia Zaterman, executive director of CLPHA. "Yet the public housing budgets being proposed will have the opposite effect."

In particular, CDBG is being widely defended for its successes and value. "The Community Development Block Grant enabled local communities to create or retain 78,000 jobs and provide assistance to nearly 160,000 households in 2004," the National Association of Housing and Redevelopment Officials (NAHRO) said in a statement following the release of the budget proposal. "The federal government should not retreat from our historic housing and community development partnership."

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The National Housing Conference (NHC) also urged the Administration to abandon the SAC grant proposal. Further, NHC questioned whether the real reason for the consolidation is mainly to reduce funding for community development programs. "The proposal to reconstitute the Community Development Block Grant Program at the Department of Commerce and to slash funding is destructive and misdirected," said NHC president and CEO Conrad Egan.

In addition, leaders from the United States Conference of Mayors (USCM), the National League of Cities (NLC) and the National Association of Counties (NACo), along with a coalition of local officials and business leaders, gathered last month to voice their opposition to the SAC proposal. "This new proposal is unreasonable and we are disappointed that this tactic is being used as an excuse to cut much needed resources," said USCM president and Akron, Ohio mayor Don Plusquellic. "We will take our message to Capitol Hill to protect our federal and local government partnerships that have been most successful for over three decades." ❖

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