



# State Deficits Taking Aim at Tax Credit Projects

By Michael J. Novogradac, CPA

The fiscal pinch being felt by many states in today's sour economy is nowhere more evident than in California where Gov. Gray Davis is proposing to shift \$500 million away from local affordable housing programs.

Nationwide, as reported in the *LIHTC Monthly Report* and elsewhere, growing state deficits are squeezing the amount of state and local funding available for gap financing for LIHTC projects. Recent reports noted that Columbia Housing Partners had to kill a tax credit transaction because of the lack of state gap financing. Such instances could become increasing prevalent as states grapple with their budget problems, noted David Sebastian, Columbia's president.

Davis faces the task of whittling down California's more than \$21 billion budget shortfall. The *Los Angeles Times* reports that Davis, who suggests that cities are allowing money to lay in banks and are not using the funds to provide affordable housing, is acting on a state housing report that is more than three years old. A more recent report from the state's controller, according to the *Times*, indicates that all but \$113 million has been earmarked to help pay for thousands of housing units.

Additionally, the *Times* reports, the move may be unconstitutional. The \$500 million has come from property tax revenue generated in local redevelopment districts, and the state's constitution says such revenues can only be used within the county they were generated.

With the economic downturn, the affordable housing industry will no doubt see more and more of these actions based on offsetting budget shortfalls. In an effort to trim Arizona's \$111 million budget deficit, for example, there was a move afoot to cut the state's housing trust fund by more than 50 percent, threatening a major source of gap financing for LIHTC projects. Legislators rejected, at least for now, the move to chop the Arizona Department of Housing's (ADOH) \$18 million housing trust fund by \$7.3 million. Those monies are earmarked for financing the construction and rehabilitation of rental units. Of the more than \$7 million, more than \$3 million is targeted for gap financing for tax-credit and tax-exempt bond projects.

Many states find themselves in similar straits and, according to ADOH, a cursory look might suggest that there is a lot of money just "hanging around." A closer look often reveals that it has been obligated for projects under construction or in the pipeline. California's and other states' extraordinary budget deficits do, as Davis puts it, call for extraordinary measures. For those in government and the LIHTC industry concerned over the potential effects of shifting housing funds to alleviate budget shortfalls, there is a lot to be learned from Arizona's lawmakers in the fight to insure that the nation's needy have access to decent, safe and affordable shelter. ❖

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