

Proposed Federal Budget for 2010 Signals Change in National Housing Policy

By Michael J. Novogradac, CPA

As President Barack Obama said in introducing his \$3.55 trillion 2010 budget, we start 2009 in the midst of a crisis that is unlike any that we have seen in our lifetimes. And like the American Recovery and Reinvestment Act of 2009 that the president signed into law just days before he presented Congress with his budget proposal, the latter was met with mixed reactions.

House Ways and Means Committee Chairman Charles Rangel, D, N.Y. perhaps put it best when he said, "I have no doubt that this budget outline will spur vigorous discussion, but it is a discussion we cannot shy away from. I look forward to working with President Obama to move forward in a bipartisan manner to simplify our tax laws and help our workers and companies remain competitive internationally."

Although the budget outline includes few program specifics and no funding levels for many programs, (the President plans to send Congress a detailed budget early this month), it was met with general optimism by many in the affordable housing industry. With the economy in a recession that is threatening to deepen further, the proposed \$47.5 billion for the U.S. Department of Housing and Urban Development (HUD) appeared to signal a change of direction for the country's housing policy. The \$47.5 billion represents a 14.5 increase over the \$41.5 billion proposed for fiscal year 2009.

In addition to the substantial resources for housing provided in the Recovery and Reinvestment Act (ARRA) of 2009 (\$13.6 billion) and the Homeowner Affordability and Stability Plan, the budget invests \$1 billion over six years to the National Housing Trust Fund established by the Housing and Economic Recovery Act (HERA) in 2008. The trust fund provides grants to states on a needs-based basis for the production, preservation and rehabilitation of affordable housing for extremely low- and very low-in-

come families. Administered by HUD, the fund was to be capitalized by contributions from Fannie Mae and Freddie Mac. However, capitalization of the fund was suspended in September when the GSEs were placed in conservatorship because the Federal Housing Finance Agency determined that Fannie Mae and Freddie Mac were undercapitalized.

The budget restores and increases funding for many HUD programs, to achieve what the Administration characterizes as a commitment to fulfilling HUD's mission of increasing home ownership, supporting innovative and sustainable community development and increasing access to affordable housing. The budget also helps homeowners and communities by reallocating funds away from poorly performing programs and significantly increasing total funding for HUD, including providing full funding of \$4.5 billion for the Community Development Block Grant Program (CDBG).

"From providing shelter to those displaced by Katrina to giving help to those facing the loss of a home to revitalizing our cities and communities, HUD's role has never been more important," President Obama said. "Since its founding, HUD has been dedicated to tearing down barriers in access to affordable housing — in an effort to make America more equal and more just. Too often, these efforts have had mixed results."

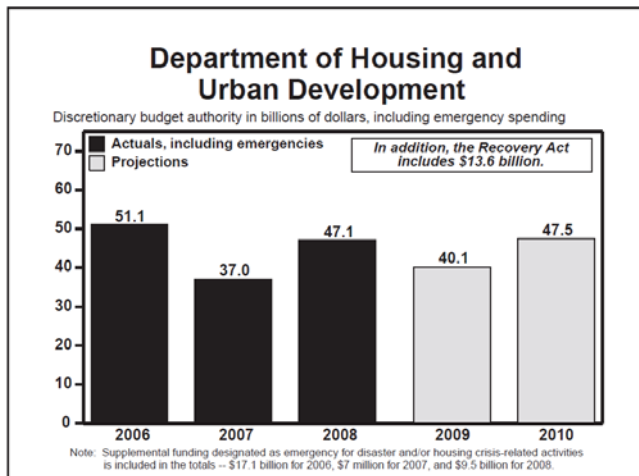
Shaun Donovan, HUD secretary, issued a statement saying he was "very pleased" with the budget outline. "The President has designed a fiscally responsible budget that stresses the need for transparency and accountability from all agencies. HUD will be a leader in providing accountability," he said.

"In tough fiscal times, we will be given the resources and flexibility to put this agency back on track: ...to be a catalyst for the production and preservation of afford-

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Source: Office of Budget and Management

able rental housing, [through] new vehicles like the affordable housing trust fund; ...to make energy efficiency and sustainable development a significant part of housing policy; and, to support and enhance programs and policies such as vouchers and community development block grants that play an important role in the lives of low-income families and communities."

The budget enhances the Housing Choice Voucher Program to provide private housing rental assistance to more than two million extremely low- and very low-income families.

The Administration indicated it plans to work with Congress to introduce legislative reforms to improve the program so that more families are assisted, administrative burdens on public housing authorities (PHAs) are alleviated, and voucher funding is more transparent and predictable.

The budget would eliminate funding for "ineffective" and "duplicative" programs, which the budget characterizes as diverting efforts from achieving policy goals and a waste of taxpayer money. Included in this are the Section 108 Community Development Loan Guarantee Program, which is "not structured effectively to encourage communities to finance large-scale development," and the American Dream Downpayment Initiative, which is "too small to operate effectively." Elimination of these two small programs would save about \$16 million. The budget also calls for reforming the Rural Housing and Economic Development program so that it is not duplicative of similar USDA programs.

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Journal of Tax Credit Housing Information

Address all correspondence and editorial submissions to:
 Jane Bowar Zastrow
 Telephone: 415.356.8034

Address inquiries regarding advertising opportunities to:
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 Telephone: 415.356.8040

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ISSN 1940-4980

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Novogradac & Company LLP
 246 First Street, 5th Floor
 San Francisco, CA 94105
 E-mail: cpas@novoco.com



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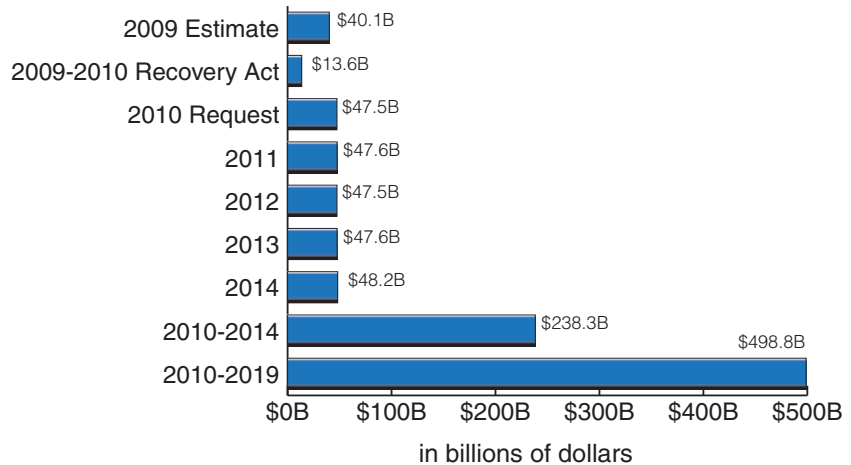
The budget calls for preserving 1.3 million affordable rental units supported by the Project-Based Rental Assistance program. The \$4.5 billion for the CDBG program is \$858 million more than that contained in the recently enacted \$410 billion omnibus appropriations bill and \$6 million more than the 2009 budget's \$3.9 billion. Included in that amount is a proposal for statutory reforms to CDBG that include formula changes, targeting incentives, accountability measures and the creation of a new Sustainable Communities Initiative to target funds to promote sustainable and economically viable communities.

In addition to the funding mentioned, the budget supports enhanced enforcement of fair housing, mortgage disclosure and settlement requirements, and creates a new Energy Innovation Fund and a new Choice Neighborhoods Initiative (see funding highlights sidebar, page 4).

On the negative side, the budget contains a recommendation to tax "carried interests" as ordinary income. Carried interest is an equity interest that an investment promoter often receives. Generally, income that is generated from a carried interest is capital gains and is subject to lower capital gains tax rates. There is concern in the housing industry that this effort to tax carried interests could have a significant detrimental impact on the multifamily and commercial real estate sectors at a time when they are already experiencing a downswing. Earlier proposals, passed twice by the House of Representatives but blocked by the Senate, would tax income from carried interests at ordinary income tax rates of as much as 35 percent (or as much as 39.6 percent under the White House budget proposal). Currently, income from carried interests is often taxed at the 15 percent capital gains tax rate.

The National Multi Housing Council (NMHC) and oth-

HUD Budget



Source: Office of Budget and Management

ers have argued for a carve-out for real estate partnerships, but Treasury officials said the Administration would not limit the provision's scope but would target all carried interest arrangements. The carried interest tax hike would not take effect until 2011 to avoid interfering with a hoped-for economic recovery.

The proposed budget, with its \$13.3 billion for the Department of the Treasury, also supports the Administration's new Financial Stability Plan, as well as the management of the Troubled Assets Relief Program (TARP), emphasizing effective, transparent and accountable program management.

Industry Support

Those supporting the proposed budget included Enterprise, which noted that it was "particularly pleased with the significant increase in funding allocated to HUD for affordable housing and community development." This funding, the organization said, will provide HUD with the financial tools that it needs to withstand the difficulties of the economy and help get affordable housing development and communities back on stable ground. Enterprise called for the budget's financial commitment to be followed by immediate action to curb foreclosures and stabilize neighborhoods.

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Other affordable housing industry leaders were also laudatory in their responses. Shelia Crowley, president of the National Low-Income Housing Coalition, called the proposed budget “a refreshing and much-needed change of direction for the country’s housing policy.” She characterized it as offering hope for the millions of low-income families who struggle to find decent homes they can afford.

“President Obama has been a strong supporter of a National Housing Trust Fund during his tenure in the Senate and throughout his campaign. We appreciate that this support is reflected in his administration’s first budget proposal,” Crowley said.

The Future

The 2010 budget looks ahead 10 years (see 10-year projection bar chart above) rather than the recent five-year outlooks and it accounts for spending that was left out under the old rules. Unlike the budgets from the previous Administration, the President’s 2010 budget includes funding for ongoing military operations for the entire 10-year budget window. The budget also includes an estimate of possible disaster relief – spending that occurs regularly but was not accounted for in past Administration budgets. In

addition, the budget reflects the cost of extending middle-income tax relief and addressing the AMT.

“As you can imagine, this is a process that will take some time. But we’re starting with the biggest lines,” Obama said. “We have already identified \$2 trillion in savings over the next decade.

“My budget does not attempt to solve every problem or address every issue. It reflects the stark reality of what we’ve inherited — a trillion-dollar deficit, a financial crisis and a costly recession,” he said.

As Congressman Charles Rangel said, President Barack Obama’s budget will spur vigorous discussion. As the House of Representatives develops its budget, and the Senate develops its budget and then the House, Senate and President work together to reconcile their budget plans, there will be many twists and turns. One thing is for sure, the next budget will reflect a substantial increase in housing funding. Over the coming months, affordable housing supporters should be fully engaged with Congress and the Administration to help ensure the housing funding increases are directed to the programs that will best help those in need of quality affordable housing. ❖

Funding Highlights:

- ◆ Provides full funding for the Community Development Block Grant program at \$4.5 billion. Reforms the program’s formula to better target economically distressed communities. Stimulates innovations in metropolitan sustainability, university partnerships, and rural housing and economic development.
- ◆ Provides \$1 billion to capitalize and launch an Affordable Housing Trust Fund to develop, rehabilitate, and preserve affordable housing targeted to very-low income households. Helps prevent homelessness and strengthen families.
- ◆ Increases funding for the Housing Choice Voucher program, making housing affordable to very low-income households. Introduce legislative reforms to address the program’s costly inefficiencies.
- ◆ Preserves approximately 1.3 million affordable rental units through increased funding for HUD’s assisted multifamily properties.
- ◆ Funds enhanced enforcement of fair housing, mortgage disclosure, and settlement requirements.
- ◆ Creates a new Energy Innovation Fund to catalyze private sector investment in the energy efficiency of the nation’s housing stock.
- ◆ Creates a new Choice Neighborhoods Initiative, making a range of transformative investments in high-poverty neighborhoods where public and assisted housing is concentrated.
- ◆ Eliminates Section 108 Community Development Loan Guarantees program and the American Dream Downpayment Initiative.

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This article first appeared in the April 2009 issue of the Novogradac Journal of Tax Credit Housing.

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