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Vigilance Needed to Offset Effects of States' Cost Increases and Budget Cuts

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Affordable housing providers across the nations face a difficult paradox: the very same dynamics that foster the growing need for affordable housing - a sagging economy and overwhelming state budget deficits - also make it more difficult to provide such housing.

Confronted with a staggering budget deficit, California exemplifies the challenges the affordable housing and community development industries face as its lawmakers, officials and gubernatorial hopefuls propose simultaneously raiding affordable housing programs and increasing property taxes for affordable housing. As if this wasn't enough there is also existing law set to become effective January 1, 2004 that will lead to additional costs to build affordable housing. These actions shrink housing resources even as low- and moderate-income housing needs continue to grow.

For example, the Housing and Emergency Shelter Trust Fund Act of 2002, Proposition 46, was passed by California voters in November 2002 to provide millions of dollars to help fund the construction, rehabilitation and preservation of affordable rental housing. However, the California Department of Housing and Community Development (HCD) and the California Housing Finance Agency (CalHFA), through which $1.7 billion of Prop 46's $2.1 billion bond funding will funnel, will see $39.6 million of it redirected to pay for prior general fund project funding that the Legislature used to help balance the state's budget.

Redevelopment funds, on the other hand, may not suffer as much. In July the state Assembly proposed a spending plan that calls for a one-time reduction of $135 million in statewide redevelopment funds -- only about half the $250 million, one-time reduction that the Senate had called for earlier. The *Sacramento Bee* reported that the Senate and Assembly will have to agree on a figure, either $135 million, $250 million or some compromise. If they can't agree on a number -- not a widely expected outcome -- there would be no redevelopment funding cut at all.

Proposition 46

Prop 46 funds will be made available through a number of NOFAs over a number of years. "We're being real aggressive in trying to get those dollars out," says William Pavao, deputy director of HCD's division of community affairs. In January and February the agency awarded about $178 million. HCD will release another $270 million beginning this fall.

Unfortunately, Prop 46, as well as many other of the state's programs, has felt the sting of balancing the budget. The Legislature took from the General Fund $12.6 million of $108 million previously funded but not drawn down from HCD's CalHOME program. Now, Pavao says, Prop 46 funds will have to be used to fill the gap. Similarly, $27 million was redirected from the Joe Serna Jr. Farmworker Housing Grant. The loss of these funds will reduce further the effectiveness of Prop 46.

Other budget impacts to HCD include $16.7 million in the return of disencumbered prior year funds and staffing reductions and delays.

Property Taxes

The state's coffers are being strip-mined for sources of additional revenue and property taxes have become the focus of much scrutiny. There currently is no guidance in California for valuing low-income housing tax credit (LIHTC) projects; such as there is for Section 236 and 515 affordable housing projects. During this crucial juncture, the California State Board of Equalization (BOE) is in the process of addressing this lack of uniform standards; the result of this process could be vital to the success of the state's LIHTC program.

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And while the BOE has solicited and considered comments from the industry, some concerns remain for low-income housing tax credit housing professionals. Chief among these is the possibility that the proposal to include the present value of future unused credits in valuing a project could increase affordable housing property taxes significantly.

Prevailing Wage Law - SB 972

California's prevailing wage law, S.B. 975, which became effective January 1, 2002, subjected many types of affordable housing development to state prevailing wage law for the first time. Intense negotiations provided exemptions for certain types of affordable housing through Dec 31, 2003.

A number of studies have examined the effects of prevailing wage legislation on project costs. Much of that research has shown that these wages are set higher than the average market labor rate. If all else remains constant, this would indicate an increase in construction costs. Because of the nature of their financing structures, many affordable housing projects could cease to be feasible if faced with such cost increases. As such, in the third round of applications for tax-exempt bonds - the last allocations before the housing exemptions' Dec. 31, 2003 sunset - the California Debt Limit Allocation Committee (CDLAC) paid close attention to how the impending changes in the law might affect the proposed projects. In the end, this may become a moot point because there was sufficient bond volume to allocate bonds to all qualified applicants. However, it did highlight the exigency of the circumstances and the great need for continued exemption for affordable housing projects.

Faced with increased taxes, budget cuts and government mandated cost increases, the struggling affordable housing industry must remain vigilant at the state level and do all it can to mitigate the effects of these developments.