



Prevailing Wage Law and Affordable Housing

By Michael J. Novogradac, CPA

Proposed and new affordable housing-related legislation keeps the industry busy examining the potential effect of these statutes. Submitted federal legislation includes a business credit for the development of low- to moderate-income housing for home ownership (H.R. 3000); the expansion of areas designated as renewal communities based on 2000 census data (H.R. 3100); and an amendment to the IRS Code to provide an increased low-income housing credit for property located immediately adjacent to Qualified Census Tracts (S.B. 1554). Additionally, lawmakers are planning to submit legislation that would address the five Technical Advice Memoranda handed down by the Internal Revenue Service (IRS) a year ago.

In California, where last month Governor Gray Davis signed into law nine pieces of affordable housing legislation, one has the potential to severely affect the industry if professionals do not act, and soon.

California's new Prevailing Wage law, S.B. 975, provides an exemption from prevailing wages for affordable housing that is financed by tax exempt bonds or tax credits. But the exemption has a December 31, 2003 sunset. Robert N. Klein, president of Klein Financial Group has written the governor urging him to immediately consider extending the sunset date, to halt the application of recent project-based wage decisions that conflict with the intent of this legislation; and to exempt self-help and 501(c)(3) project financing through clean-up legislation. "The application of Prevailing Wages to residential, affordable projects would gut affordable housing development in California," writes Klein, who has emphasized the importance of more industry professionals making their voices heard. Klein estimates that under the new prevailing wage law the number of feasible affordable housing projects would decrease by 33 percent to 50 percent and the effect of increasing costs would generally increase the amount of local cash subsidy required by 50 percent. "A generation of progress in affordable housing financial technology advances to achieve [project] feasibility would be destroyed," he said.❖

*This article first appeared in the November 2001 issue of Novogradac & Company's **LIHTC Monthly Report** and is reproduced here with the permission of Novogradac & Company LLP.*

© Novogradac & Company LLP 2002 - All Rights Reserved.

This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.taxcredithousing.com

For the latest updates and information on tax credit programs and resources, visit our web site at www.taxcredithousing.com. For further inquiry, contact Jane Zastrow at telephone 415.356.8034, facsimile 415.356.8090 or e-mail cpas@novoco.com. Novogradac & Company LLP, 246 First Street, 5th Floor, San Francisco, California 94105.