

April 16, 2007

Senator Jenny Oropeza, Chair  
Senate Revenue and Taxation Committee  
State Capitol, Room 408  
Sacramento, CA 95814

Re: SB 713 - State Low-Income Housing Tax Credits

Dear Senator Oropeza:

We are writing this letter to express our support for SB 713, a bill that would allow the allocation of state low-income housing tax credits among partners in a partnership to be based upon language in the partnership agreement. This small change to the existing statute will raise additional capital to finance critically needed affordable housing in California, without increasing the annual allocation of state low-income housing tax credits.

Currently, partnerships that receive state tax credits must allocate the state tax credits to the same partner that is allocated the federal tax credits. This bill gives a partnership the option to allocate the federal and state tax credits to separate investors. This change will enable the partnership to allocate the state tax credits to the partner that is willing to pay the most for the state tax credits. This will also allow the partnership to allocate the federal tax credits to the partner that is willing to pay the most for the federal tax credits. Currently, there are many investors that are willing to pay a high price for one tax credit or the other, but are not willing to pay the most for both tax credits. This change would lead to a larger pool of investors, which will generate even greater competition for the credits, and will result in more capital being raised from the tax credits.

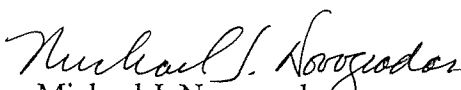
Many investors interested in buying the state tax credits, which are claimed over four years, do not have a predictable enough federal income tax liability to value as highly the federal tax credits, which are generally claimed over ten years. Additionally, some investors may have little or no federal tax liability, but a substantial California liability, or they may be in an alternative minimum tax situation. For those investors, the California state tax credit may be valuable while, at the same time, they have little interest in receiving any federal tax

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credits. Conversely, many other investors have significant interest in the federal tax credits, but do not have any state tax liability. As such, the state credit is of no value to them.

This bill will raise additional capital to finance affordable housing in California, without increasing the annual allocation of state low-income housing tax credits. Please contact me at (415) 356-8000 if you have any questions or comments.

Very truly yours,  
Novogradac & Company LLP

by   
Michael J. Novogradac

cc: Bill Pavão, Tax Credit Allocation Committee