

In this week's Tax Credit Tuesday podcast, Michael J. Novogradac, CPA discusses more details on the Trump administration's fiscal year 2021 budget request and how the request could affect affordable housing and community development. Next, he talks about mention of the low-income housing tax credit during a Senate Finance Committee hearing on the president's budget request. Then, he shares an announcement on HUD's capital fund program and a letter from Senate Finance Committee Chairman Chuck Grassley on renewable energy tax credit incentives. He closes with state-level opportunity zones legislation that was introduced in Utah and Illinois.

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GENERAL NEWS

Trump FY 2021 Budget Proposal

- Let's continue from last week with an analysis of the Trump administration's \$4.8 trillion fiscal year 2021 budget proposal that was released over a week ago.
- The budget request, as proposed, will most certainly not become law. That said, the budget request is significant because it reveals the Trump administration support, or lack of support, for various programs and initiatives. The budget request also includes information about funding levels are needed to sustain programs.
- The budget request also can be viewed as the first step in a long road ahead in the budget and appropriations process.
 - Normally, the next step would be for Congress to consider a budget resolution. A resolution that provides top line funding levels.
 - But a budget resolution is not needed this year to begin the appropriations process, as Congress already set the topline budget amounts in the Bipartisan Budget Act of 2019, which provided for defense and nondefense allocations for the fiscal year 2020 and 2021.
 - Which means the appropriations process can begin now, but it is unlikely all 12 spending bills will pass both houses of congress and be enacted before fiscal year 2021 begins on October 1, 2020.
 - This means that we will likely need a continuing resolution to keep the government funded past Sept. 30 until shortly after the November election.
 - Which means, final fiscal year 2021 appropriations will greatly depend on the results of the election this November.
- So what is the big takeaway from this budget request?
- The big takeaway is that the budget request, once again, similar to prior years, proposes significant program budget cuts for affordable housing and community development.
- I won't go into a laundry list of requested amounts for each program in this podcast—there's a lot to cover and I want to stick to the big picture.
 - That said, if you are interested in seeing a line-by-line budget, check out my Notes from Novogradac blog post.
 - I'll include a link in today's show notes.
- So, back to the big picture.
- The request proposes to slash HUD's budget by an astounding 15 percent—that's \$8.6 billion in cuts from last year's 2020 HUD budget.
- Those proposed budget cuts would affect most of the major HUD programs, like major cuts to Housing Choice Vouchers and the public housing operating fund.
 - Furthermore, other programs would be eliminated, including:
 - The public housing capital fund,
 - The Community Development Block Grant,
 - HOME funds, and
 - Choice Neighborhood grants.
- The administration said its budget would achieve savings in rental assistance programs by re-proposing the Making Affordable Housing Work Act.
 - That legislation was proposed by the Trump administration in 2018 to increase tenant contributions toward rent from 30 percent of adjusted income to 35 percent of gross income.

- The Making Affordable Housing Work Act would also institute a minimum monthly rent of \$50.
- Obviously, there's significant concern from the affordable housing community about the Making Affordable Housing Work Act.
- The concern is that the bill would threaten the housing stability of vulnerable households who already struggle with rental payments.
- The administration's budget proposal numbers also assume that the enactment of rent reforms under the Making Affordable Housing Work Act.
- If the proposed rent reforms were not enacted, the proposed funding amounts would not be enough to provide a full 12 months of project-based rental assistance renewal funding when contracts expire, and would likely result in public housing agencies reducing the number of vouchers they can fund.
- Another major change in the proposal involves HUD's Moving to Work program.
- Moving to Work is currently a demonstration program being tested by 39 public housing agencies or PHAs.
- Congress authorized HUD to expand the program demonstration to 100 more agencies.
 - There are many existing public housing and voucher rules that restrict how public housing agencies can use federal assistance dollars.
 - The purpose of Moving to Work is to give housing agencies more flexibility with how they use their federal funds.
 - Moving to Work gives agencies certain regulatory waivers and allows them to combine their tenant-based rental assistance, public housing capital and operating fund resources.
 - The budget request would transfer a portion of funds that were previously included in the accounts for Housing Choice Vouchers, the public housing operating fund and the public housing capital fund into a separate account for funding Moving to Work agencies.
 - Reception to the Moving to Work program is mixed.
 - Some PHAs like the idea of flexibility under Moving to Work, while other housing advocates are concerned about ensuring that the lowest income populations are served properly.
 - That said, House appropriators are unlikely to approve setting up a separate Moving to Work account unless and until Moving to Work is authorized as a permanent program, rather than just a demonstration.
- There is some good news: The budget request proposes to eliminate the public housing cap on the Rental Assistance Demonstration, or RAD program.
 - RAD is authorized at 455,000 public housing units, so the budget proposal would remove that unit limit.
 - The budget would also allow properties with senior preservation rental assistance contracts and Section 811 properties for people with disabilities to be eligible for conversion under RAD as well.
 - The budget would also provide \$100 million in incremental funding for RAD conversions.
 - However, that funding is undermined by the elimination of the public housing capital fund and cuts to the public housing operating fund, both of which are used by PHAs to finance RAD conversions.
 - The cuts far outweigh the positives.
- So, that's a top-level look at how the proposed budget would affect HUD programs.
- Let's look now at how the budget request would affect Treasury.

- Treasury would not fare very well, either.
- The budget would eliminate all discretionary CDFI Fund grant funding.
- The CDFI Fund would only get \$14 million for its 2021 administrative budget, which is less than half of this year's approved administrative budget.
- Obviously, such deep cuts could seriously affect the CDFI Fund's service to existing grantees and new markets tax credit allocatees.
- By the way, the budget request did not include a proposal to extend the new markets tax credit, which is set to expire at the end of this year.
- In other bad news: The proposed budget includes a repeal of the renewable energy investment tax credit and accelerated depreciation for renewable energy.
- As I said, these are some of my top-level observations of the proposed Trump Administration budget.
- I'd like to hear your thoughts or observations.
- Please email them to me at cpas@novoco.com.

Senate Finance Committee Budget Hearing

- On a tangential note, discussions of the president's budget last week did include a spotlight moment for the low-income housing tax credit during a Senate Finance Committee hearing.
- The sole witness at the hearing was Treasury Secretary Steven Mnuchin.
- During the hearing, Democratic Sen. Maria Cantwell of Washington asked Secretary Mnuchin about his thoughts on the low-income housing tax credit.
- As a quick aside: We're fortunate to have Sen. Cantwell as a lead champion of expanding and enhancing the low-income housing tax credit through the Affordable Housing Credit Improvement Act.
 - That's the bipartisan bill she introduced in the current congressional session, along with other original sponsors:
 - Republican Sen. Todd Young of Indiana,
 - Senate Finance Committee Ranking Member Ron Wyden, and
 - Republican Sen. Johnny Isakson of Georgia.
 - The Senate bill has 38 cosponsors and the House version has 212 cosponsors.
 - By the way, the House bill is only six cosponsors short of having more than half of the House as cosponsors of the legislation, which illustrates the strength of support for these affordable housing initiatives.
- During last week's Senate Finance Committee hearing, Sen. Cantwell said that the low-income housing tax credit helps build 90 percent of federally financed affordable housing.
- She said that if Congress does not expand the capacity for the low-income housing tax credit, it would exacerbate the supply shortage of affordable housing.
- In particular, Sen. Cantwell explained the importance of establishing a minimum 4 percent low-income housing tax credit rate.
- As our housing listeners know, the 4 percent rate is not currently fixed at 4 percent.
- It's a variable rate that Sen. Cantwell says is currently trading at about 3.2 percent.
- Creating a minimum 4 percent rate is a key priority in the Affordable Housing Credit Improvement Act.

- Sen. Cantwell said that setting a fixed 4 percent rate would immediately help create more affordable housing because the value of the credit would be more determinant for investors.
- She asked Secretary Mnuchin how Treasury plans to look at the 4 percent low-income housing tax credit and whether the secretary would support a 4 percent fix.
- Secretary Mnuchin said he would definitely be willing to work with the committee on addressing the 4 percent low-income housing tax credit minimum rate.
- Sen. Cantwell followed up by saying that the 4 percent fix is the easiest solution right now, but asked Treasury to look at a larger investment beyond the 4 percent issue.
- On behalf of the affordable housing community, I want to thank Sen. Cantwell for her leadership on this issue and for keeping affordable housing priorities at the forefront of critical policy discussions.

OTHER NEWS

- In other news, HUD on Friday awarded more than \$2.7 billion to public housing authorities in all 50 states, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands.
 - HUD made the awards through its capital fund program, which allows public housing agencies to make capital improvements.
 - The capital fund grant is an important financing source used in RAD transactions.
 - Virtually all RAD transaction use HUD capital funds to convert certain public housing buildings.
 - When a RAD deal closes, the public housing agency uses operating subsidy and capital funds to subsidize the conversion of project-based voucher units or project-based rental assistance units until the housing assistance payment contract begins Jan. 1.
 - That's why capital funds are critical to RAD conversions.
 - As I noted earlier, while there's a recent award of \$2.7 billion, the Trump administration proposes eliminating the capital fund program.
- Let's turn to energy tax policy.
- Senate Finance Committee Chairman Chuck Grassley last Thursday responded to a letter from 27 Democrats who criticized a lack of senate finance committee hearings on energy policy.
 - In the letter Chairman Grassley noted the Senate Finance Committee task force formed last year to examine expired and expiring energy tax policies.
 - Grassley said he intended to begin a markup based on the task force's findings.
 - However, Grassley said a bipartisan markup did not materialize last year because of a partisan committee disagreement on whether to expand the electric vehicle credit.
 - Disagreement over the electric vehicle credit nearly derailed the energy extenders bill that was retroactively passed, according to Grassley.
 - Grassley closed his letter by saying he remains open to finding ways to advance bipartisan energy policy.
- Let's close out the podcast with state-level opportunity zones news.
- Legislation was introduced in Illinois and Utah last week that would create state tax credits for opportunity zones investments.
 - State-level opportunity zones incentives can help attract more private investment dollars into a state's communities in need.
 - The state incentives can also make some opportunity zones transactions financially viable or enables them to provide more services or more benefits to the community than would otherwise be financially feasible.
 - The Illinois legislation would create a 10 percent credit for investments made in qualified opportunity funds that invest in the Illinois' opportunity zones.
 - The credit would apply to tax years beginning on or after Dec. 31, 2020, and would have a \$50 million cap for each two-year fiscal period.
 - There would also be a cap of \$1 million per taxpayer.
 - The Utah legislation would create a 25 percent tax credit for building eligible parking structures in opportunity zones.
 - The bill would also make affordable housing developments in opportunity zones eligible for the Olene Walkers Housing Loan Fund, which is a state program that



supports the development of affordable housing options for low-income individuals and families.

- It would also give preference to federal and state low-income housing tax credit applications for properties in opportunity zones.
- If you have any questions about opportunity zones incentives in your state, please contact a Novogradac partner near you.
 - I'll include a link to our opportunity zones services brochure in today's show notes and tweet it out as well.
- Novogradac also maintains a web page dedicated to state-level opportunity zones information.
 - The page has links to state opportunity zones legislation, related statutes, opportunity zone designations and more.
 - You can find a link to that page in today's show notes, and I'll tweet it out as well.

Related Resources

Trump Administration Budget Request

[A Budget For America's Future](#)

[Novogradac Web Page With Budget Request Documents](#)

[Notes from Novogradac: Trump Administration FY 2021 Budget Proposes \\$8.6 Billion Cut to HUD, Eliminates CDFI Fund Grant Funding](#)

Senate Finance Committee Hearing on Budget Request

[Press Release: Cantwell Continues Affordable Housing Push, Presses Treasury Secretary Mnuchin to Work on Solution](#)

[Video of Sen. Cantwell's Q&A with Secretary Mnuchin](#)

HUD Capital Fund

[HUD Awards \\$2.7 Billion to Improve, Preserve Public Housing](#)

Grassley Response Letter

[Grassley Letter to Wyden Regarding Energy Tax Proposals \(Feb. 12, 2020\)](#)

State OZ Legislation

[Illinois H.B. 4761](#)

[Utah H.B. 299](#)

[Novogradac Opportunity Zones Services Brochure](#)

[Opportunity Zones State Information](#)

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