

# MEMO OF MEMBERS

The Weekly Newsletter of the National Low Income Housing Coalition

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## Capitol Hill

### Senate Passes Tax Cut with Sunset Gimmick, Housing Credit Carve Out

After two days of debating amendments and despite thousands of calls from constituents opposed to tax cuts, the Senate has passed a tax cut bill under reconciliation protection—meaning it needed to pass by only a simple majority because it was protected from filibuster—that does not exceed the \$350 billion limit set by the budget resolution. But the bill, with a new amendment that excludes part, then all, then no dividend income from tax by 2007, fits into the \$350 billion limit only because of the artificial 2007 sunset.

As it had emerged out the Finance Committee earlier in the week, the Senate tax bill would have excluded the first \$500 in dividend income at the individual level from tax, plus an additional 10% of dividend income through 2007 and an additional 20% through 2013. During the debate on May 15, Senator Don Nickles (R-OK) offered an amendment to replace the Finance Committee dividend cut with a provision that would exclude 50% of dividend income from tax in 2003 and all dividend income from 2004 to 2005, but all dividend income would once again be fully taxable in 2007. It is anticipated that as the 2007 sunset approaches, however, the dividend exclusion would not be allowed to expire but would be reenacted, which would make the real cost of the tax cut \$660 billion, according to the Center for Budget and Policy Priorities.

Vice President Dick Cheney was required to cast the tie-breaking vote for the Nickles amendment, with Senators Zell Miller (D-GA) and Ben Nelson (D-NE) the only Democrats voting in favor of the amendment and Senators John McCain (R-AZ), Lincoln Chaffee (R-RI) and Olympia Snow (R-ME) voting against the amendment. Senator Nelson's support was achieved by a provision in the bill that would offer \$20 billion to states in fiscal relief.

Unlike the President's dividend exclusion proposal, the Nickles amendment would *not* require the payment of tax-free dividends only out of profits already taxed at the corporate level. As a result, the Nickles amendment would not reduce the value of the Low Income Housing Tax Credit (LIHTC). Under the President's

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## National Housing Trust Fund

### H.R. 1102 Becomes More Bipartisan

Three additional Representatives joined H.R. 1102 this week: Representatives Chet Edwards (D-TX), Jim Ramstad (R-MN), and Christopher Smith (R-NJ). The new cosponsorships add to the bipartisanship of the National Housing Trust Fund legislation, and bring the total number of cosponsors to 194.

The number of endorsers of the National Housing Trust Fund Campaign continues to grow as well, and has now reached 4,150. New endorsements this week come from the *San Jose Mercury News*, which ran an editorial in support of the National Housing Trust Fund; the City of Morgan Hill, CA; and the Town of Los Gatos, CA. More information and suggested action items are available at [www.nhtf.org](http://www.nhtf.org).



## POINT OF VIEW

by Sheila Crowley, President

When NLIHC's partner state organizations met in Washington in late April, the reports on state budgets were dismal. The National Conference of State Legislatures now projects an \$80 billion state budget shortfall for the current fiscal year, and forecasts a deficit for the next fiscal year of \$79 billion or more, as several states have had to revise their revenue expectations downward after counting April receipts. (See [www.ncsl.org](http://www.ncsl.org).) Unless state decouple their tax structures from the federal tax structure, revenues will shrink even further if the proposed federal tax cuts are enacted.

Most states are constitutionally required to balance their budgets and do not have the option of running deficits like the federal government. In the absence of federal assistance, they must cut spending or raises taxes—or take up gambling—to balance their budgets. Education, health care, and public safety are the biggest state expenses, and are what are getting cut now.

One way the U.S. Senate made its \$350 billion tax cut palatable enough for a couple of moderates to vote for it was to include \$20 billion in aid to the states. However, even state aid that is at a fraction of what is needed just to maintain current service levels does not sit well with members of the U.S. House who did not include state fiscal relief in their tax cut bill. The reason? States that increased spending when they had surpluses in the 1990s should not expect Congress to “bail them out.”

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proposal, in contrast, corporations would have had reduced incentives to lessen their tax burden through tax credits, since corporate profits shielded from tax could not be passed on as a tax free dividends to shareholders, therefore reducing the amount that could be raised through the LIHTC.

As it was initially unclear whether the Nickles amendment would follow the President's model and reduce the amount of the LIHTC, Senator Jack Reed (D-RI), ranking member of the Subcommittee on Housing and Transportation, was prepared to offer an amendment that would provide a safe harbor for the LIHTC. Instead, Senator Reed, along with Senators Jon Corzine (D-NJ), Barbara Mikulski (D-MD), John Kerry (D-MA), Jay Rockefeller (D-WV), Mary Landrieu (D-LA) and Paul Sarbanes (D-MD) offered an amendment setting forth the sense of the Senate that the LIHTC should be protected in any reduction or elimination of the taxation of dividends. The amendment passed on a voice vote. Supporters of the President's dividend exclusion model may continue to pursue it in conference.

Vice President Cheney was not required on the overall passage of the Senate bill, with Senator Evan Bayh (D-IN) casting the deciding vote for final passage of 51-49. The Senate conferees will be Senators Chuck Grassley (R-IA), Orrin Hatch (R-UT), Nickles, Trent Lott (R-MS), Max Baucus (D-MT), John Rockefeller (D-WV), and John Breaux (D-LA). Major issues remain to be resolved in conference with the House, which passed a tax cut bill costing \$550 billion. The House bill, H.R. 2, does not have a full or partial exclusion, but would lower the tax rate on all dividend income and capital gains. The House bill does not contain any state fiscal relief, nor does it discontinue the exemption from tax of \$80,000 earned from work abroad. The *Times* notes that House Speaker Dennis Hastert (R-IL), as well as analysts from the conservative Heritage Foundation and American Enterprise Institute, have critiqued the structure of the new Senate dividend exclusion plan. Meanwhile, advocates for housing and other social programs oppose both bills, as they would provide tax breaks for elites and would starve spending on important domestic needs.

### Attention Focused on Voucher Block Grant Proposal

Indications of skepticism about the Administration's proposal to block grant the Section 8 voucher program continue to emerge. On May 9, Senators John Warner (R-VA) and George Allen (R-VA) sent a letter to HUD expressing concerns that they had heard from housing authorities in the Commonwealth about the block grant plan. In particular, they relayed concerns about

the block grant's responsiveness to local market conditions, whether funding would keep up with need, and the lack of uniformity across states that would result from a block grant. The Senators asked that HUD arrange a meeting with representatives of the housing authorities. Senators Warner and Allen had earlier drafted and circulated a more pointed letter that had garnered 42 signatures, including those of several Republicans. The Senators were asked by HUD to hold off sending their letter until HUD had introduced and explained its legislation, which they did.

Also on May 9, a briefing was held for a standing-room only crowd of housing staff in the Senate, organized by the Center on Budget and Policy Priorities (CBPP), the National Association of Housing and Redevelopment Officials, the Corporation for Supportive Housing (CSH), the National Coalition for the Homeless and NLIHC. At the briefing, Irene Basloe Saraf of NLIHC provided an introduction to the voucher program. Gloria Guard of People's Emergency Center in Philadelphia described the scope of the housing affordability crisis and why vouchers are crucial to families trying to move out of homelessness. Mike Finkle of the Fairfax County Housing Authority laid out how the program works and the importance of engaging landlords. Creative ways to establish community partnerships was the focus of George Stone, with CSH in Minneapolis, who described how the voucher program is used there to provide housing for people experiencing long-term homelessness. Finally, Barbara Sard with CBPP discussed the research showing the success of the voucher program and explained the lack of sufficient funding requested for FY04. A similar briefing will be held in for House staff on Monday, May 19.

The Subcommittee on Housing and Community Opportunity will take up the block grant proposal on Thursday, May 22, at 2 pm in room 2128 of the Rayburn Office Building. Subcommittee chair Bob Ney (R-OH), while having introduced the block grant bill at the request of the Administration, has said that he is neutral on whether a block grant is the appropriate means to improve the program. His colleague from Ohio, Representative Pat Tiberi (R), was quoted in the Newark, OH, *Advocate* on May 13 saying that a block grant would not fix existing problems with the voucher program and could create new problems. Thursday's hearing will be the first in a series on the voucher program and the Administration's legislative proposal.

### Agriculture Appropriations Subcommittee Hearing

The Senate Agriculture Appropriations Subcommittee's May 16th hearing on the U.S. Department of Agricul-

*(See Capitol Hill on p. 4)*

## HUD

### Lead Based Paint Settlement

On May 16, HUD released a press release announcing that HUD, the U.S. Department of Justice, the U.S. Environmental Protection Agency and several Los Angeles based property management companies had reached settlement on two lawsuits. The suits were based on government allegations that by not informing their tenants in more than 4,500 apartments in Los Angeles and around the country of lead paint hazards, the management companies failed to comply with federal regulations that require landlords to provide tenants with a lead hazard information pamphlet. In the settlement, the companies agreed to pay \$100,000 in civil penalties, to test for and clean up lead-based paint in more than 4,500 apartments nationwide, and to contribute to two children's health projects in L.A.

### RESPA Settlement

HUD has settled a civil complaint brought against 13 New York attorneys for violating the Real Estate Settlement Procedures Act (RESPA). In a May 8 press release, HUD reported that, allegedly, "the attorneys were referring their clients to title companies they formed, earning payments based solely on the volume of business referred." RESPA prohibits a person from receiving anything of value for referrals involving a federally related mortgage loan. As part of the settlement, "the attorneys agreed to pay \$200,000 and to divest themselves of any interest in a title company for three years. In addition, the attorneys' title companies were required to file amended tax returns for the past three years."

### HUDClips

On May 10, under Notice H 2003-09, HUD announced the extension of a program that allows HUD to sell single-family homes owned by HUD that have been on the market for at least six months to a local government for \$1, plus closing costs. Among other requirements, the local government's subsequent profits from the resale must be used for housing or community development purposes. The extension expires April 30, 2004.

All notices are available at [www.hudclips.org](http://www.hudclips.org).

### Tell Your Friends...

NLIHC membership is the best way to stay informed about affordable housing issues, keep in touch with advocates around the country, and support NLIHC's work. Membership information is available at [www.nlihc.org](http://www.nlihc.org), or by fax, mail, or e-mail. Just e-mail [membership@nlihc.org](mailto:membership@nlihc.org) or call 202-662-1530 to request membership materials to distribute at meetings and conferences.

## Update from the Field

### IL Legislature Considers Housing Bills

As the Illinois state session draws to a close, May 16 was supposed to be the last opportunity for the legislature to consider any legislation not relating to the budget, including several pieces of housing legislation.

House Bill 2345, the Illinois Housing Initiative Act, was the bill housing advocates were following most closely. It would require the state to develop a housing plan for Illinois focusing on certain underserved populations, including low income and homeless persons, as well as low income workers unable to afford housing near their jobs. Although the bill ended up not coming up for a vote this week, it did receive an extension, and is now due to be considered in December of 2003. Advocates say they welcome the opportunity to have more time to organize in support of the bill. However, a provision that would have allowed communities with completed housing plans to receive preference for other state infrastructure dollars has been removed from the bill, as it became too controversial.

One piece of housing-related legislation that did pass this week is a bill designed to overcome the barriers faced by voucher holders looking for apartments in low-poverty, high job-growth areas. Landlords who rent to voucher holders in communities that have been designated 'opportunity areas' will receive property tax relief equal to about one month's rent for each family for up to 2 units or 20% of the units in their building. Now that the bill has passed the legislature, advocates say they have been assured of the Governor's signature in the next week.

This week's action follows a May 6 rally and lobby day, in which more than 500 people representing 60 organizations descended on Illinois' state capitol in Springfield as part of their ongoing work to get Governor Rod Blagojevich and the legislature to support legislation and budget items that will help alleviate the housing problems that Illinois families face.

"One of the highlights of the day was getting two legislators from Chicago's upper-income suburbs to attend our rally and talk about the need for affordable housing in their districts. That's something that wouldn't have happened a couple of years ago," said Bob Palmer, Housing Justice Organizer for the State-wide Housing Action Coalition (SHAC).

Illinois advocates are also requesting, as part of the budget to be determined later in May, \$3.5 million in additional annual funding from the Department of Human Services to pay for supportive housing services

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ture (USDA) programs included testimony from USDA Under Secretary Thomas Dorr on the agency's FY04 proposed budget for the Rural Housing Service (RHS) and other USDA Rural Development agencies. Mr. Dorr noted that his agency "has become rural America's venture capital firm" and that the "philosophies and drive of the old Farmers Home Administration no longer apply." (Farmers Home was the rural housing agency from 1949 until 1994.) The Under Secretary implied that USDA would no longer be the "lender of last resort" for low income people. At the same time, Mr. Dorr stressed the Administration's commitment to increasing minority homeownership, "addressing and shoring up our multi-family housing portfolio," and boosting funds for farm labor housing. But the budget request cuts rural rental housing funds sharply and proposes no new construction of rental units. Separate written testimony by RHS Administrator Art Garcia spelled out the agency's new "Five Star" plan for expanding rural minority homeownership.

Subcommittee Chair Robert Bennett (R-UT) was the only senator present for the unusual Friday hearing. With testimony from three other USDA Under Secretaries, most of the hearing focused on farm production. Senator Bennett asked about housing loan default rates and whether rural housing assistance programs are an incentive in keeping some farmers in an unprofitable activity. Mr. Dorr replied that Rural Development programs mostly serve non-farm rural households and that the RHS direct single-family default rate is about 15%. Mr. Dorr also noted that J.P. Morgan Chase, in announcing a new \$500 billion homeownership program for minority and underserved groups, cited rural America as one of the best places to invest.

—Thanks to the Housing Assistance Council for contributing this article.

### Banking Committee Holds Nominations Hearing

On May 13, the Senate Committee on Banking, Housing and Urban Affairs held a hearing on pending nominations. Among other witnesses, the Committee heard from Steven Nesmith, nominated to become HUD's Assistant Secretary for Congressional and Intergovernmental Affairs. In this role, Mr. Nesmith would serve as the link between HUD and Congress and other agencies and organizations. Mr. Nesmith, an attorney from Pennsylvania, served most recently as Deputy Assistant Secretary in the Economic Development Administration of the U.S. Department of Commerce.

Senator Richard Shelby (R-AL), chair of the Committee, asked Mr. Nesmith how he would fulfill his role as the information conduit for HUD with Congress and with outside entities. With respect to Congress, Mr. Nesmith said that he would endeavor to prevent housing programs from working in isolation from one another and would serve as a leader in bringing various program areas together to provide information. Mr. Nesmith also said that he would convene meetings of interest groups at HUD to facilitate a cooperative working relationship. Senator Paul Sarbanes (D-MD), ranking member of the Committee, noted that Members of Congress had found HUD—particularly staff in the program area offices—unresponsive to requests that it provide information and explain policy decisions and recommendations. Mr. Nesmith said that he intended to provide leadership in ensuring that Congress receives the information it needs and would expect to be called to task if such information was not forthcoming from HUD.

Mr. Nesmith's nomination will be voted on by the Banking Committee on Tuesday, May 20.

### Housing Markup to be Held

The House Financial Services Committee will hold a markup to consider several bills, including H.R. 1276, the American Dream Downpayment Act, and H.R. 1614, the HOPE VI Program Reauthorization and Small Community Main Street Rejuvenation and Housing Act of 2003. The markup will begin at 10 am on Tuesday, May 20, in room 2128 of the Rayburn Office Building and is expected to continue into the next day.

### New Legislation

On May 14, Representative Richard Neal (D-MA) introduced H.R. 2103. This bill would amend the Internal Revenue Code of 1986 to exclude from gross income the value of certain real property tax reduction vouchers received by senior citizens who provide volunteer services under a state program. The bill was referred to the House Committee on Way and Means.

H.R. 2117 was introduced by Representative Fortney Stark (D-CA) on May 15 and was referred to the House Financial Services Committee. This bill would amend the Federal National Mortgage Association Charter Act and the Federal Home Loan Mortgage Corporation Act to remove certain competitive advantages granted to the housing-related government-sponsored enterprises relative to other secondary mortgage market enterprises.

## News & Events

### Legislative Action Center to Replace Bills at a Glance

Visitors to NLIHC's website may have noticed that there is now a box on NLIHC's homepage into which visitors can enter their zip codes and receive help in contacting Congress about housing and other issues, including the National Housing Trust Fund. This new legislative action center allows visitors to check NLIHC's legislative updates and alerts, key votes by Members of Congress, and learn the basics of communicating with Capitol Hill. In addition, there is a media guide that allows visitors to learn about the media in their area of the country.

The action center also has a list of current legislation. Beginning next week, the link for Bills at a Glance in *Memo to Members* will lead readers to this site. This new and improved list of current legislation provides links to substantial and up-to-date information about the bills referenced, as well as NLIHC's position on the bills, if a position has been taken. For this week, Bills at a Glance is available at [www.nlihc.org/news/legupdate.htm](http://www.nlihc.org/news/legupdate.htm).

### Affordable Housing Excellence Awards

The Enterprise Foundation has announced the MetLife Foundation Awards for Excellence in Affordable Housing. The program recognizes community-based or regional nonprofit organizations and tribes or tribally designated housing entities that excel in property and asset management or provide housing to people with special needs. Awards will be presented in two categories, Supportive Housing and Property and Asset Management, and the prize money may be used to cover any of the needs of the winning organizations. First place winners will receive \$25,000; second place winners receive \$15,000; and third place winners receive \$10,000.

The program is designed to showcase models of excellence in the design and management of affordable housing and the operation of supportive housing for special needs populations; increase the understanding of how to achieve success in providing supportive housing for special needs populations; increase the understanding of the role of the owner, asset manager, property manager, and tenants in developing, maintaining, and operating housing; provide an unrestricted financial award for agencies that exhibit excellence in asset and/or property management and the provision of special needs housing; and disseminate model supportive housing and property management programs through publications and the Enterprise Foundation website.

The application deadline is June 16, 2003. See [www.enterprisefoundation.org/metlife/index.asp](http://www.enterprisefoundation.org/metlife/index.asp).

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for 29 housing projects serving 1,110 homeless and/or mentally ill people. Advocates point out that \$41 million in federal dollars already raised for the housing will go to waste unless the state provides this additional funding.

After a series of hearings in the Illinois House last fall, housing advocates say they felt encouraged that the Governor and the legislature were committed to addressing housing issues in 2003. "Governor Blagojevich held a dinner with us prior to his inauguration where he talked about the importance of housing and ending homelessness, but we haven't seen much concrete action from the Governor's office as of yet," said Anne Corbi, Community Development Director at the Project Now Community Action Agency in Rock Island. The House responded to the hearings by forming a standing committee on housing at the urging of Representative Julie Hamos (D-Evanston).

The rally and lobby day was sponsored by SHAC, the Chicago Regional Affordable Housing Roundtable, the Illinois Affordable Accessible Housing Task Force, the It Takes a Home to Raise a Child Campaign, the Source of Income Working Group, the Supportive Housing Providers Association, and the Tenants Rights Working Group.

For more information, contact Bob Palmer of SHAC at 312-939-6074 or [shacorg@ameritech.net](mailto:shacorg@ameritech.net).

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## Resources

### Revolving Loan Funds for Rural Affordable Housing

In April, the Housing Assistance Council (HAC) released a report analyzing the community lending practices of revolving loan funds used to help fund rural affordable housing. In examining the different contexts and practices of revolving loan funds, "Best Practices in Revolving Loan Funds for Rural Affordable Housing" finds that the appropriate foundation, structure, and management of the fund is determined by the rural context and the inclusion of best practices garnered from similar funds.

Housing revolving loan funds reinvest the interest and principle paid by recipients in order to be able to generate an ongoing source of funding for other housing projects. Community lending institutions that are certified by the Department of the Treasury's Community Development Financial Institutions (CDFI) Fund often generate these loans. The report looked specifically at four such funds: the Kentucky Mountain Housing Development Corporation (KMHDC), the Federation of Appalachian Housing Enterprises (FAHE), the Vermont Community Loan Fund (VCLF), and the Northwest Farmworker Housing (Tri-State) Loan Fund.

After examining the particular aspects of these funds, the report finds four general "best practices" that community lenders can follow:

- A clear mission, good technical assistance, and solid initial capitalization are essential to establishing a revolving loan fund.
- Successful funds start with simple loan fund policies and procedures that are easy to use. Once funds enter into competition with other community loan products, successful funds diversify their products and expand their practices.
- A comprehensive risk management plan is necessary. Revolving loan funds must "ensure that the collateral for each loan will cover the costs of a possible default, and delinquencies should be monitored as closely and as soon as possible." In-house technical assistance and homebuyer education and counseling are methods of preventing delinquencies.
- Investment in information technology and staff capacity is important to encourage growth and handle complex financing and reporting requirements.

For the full report, visit [www.ruralhome.org/pubs/credit/revolvingloanfunds.pdf](http://www.ruralhome.org/pubs/credit/revolvingloanfunds.pdf).

## People

### New Policy Analyst at NLIHC

Kim Willis has rejoined the NLIHC staff as a Policy Analyst. Kim worked for NLIHC as a legislative intern, and as the field organizer for the National Housing Trust Fund Campaign. Before returning to NLIHC this week, Kim served as a constituent service aide for a Maryland state delegate. She recently completed her master's degree in public policy at American University, and she holds a bachelor of science degree from Towson University, MD, in sociology. The Policy Analyst is a new position, and Kim will be assisting with NLIHC's legislative and policy efforts. Kim reports that she is happy to be back at NLIHC. Welcome (back), Kim!

### Weinstein Joins CHN

The Board of Directors of the Coalition on Human Needs (CHN) has announced that Deborah Weinstein will be joining the staff of CHN as Executive Director. A long-time distinguished leader in the human needs community, Ms. Weinstein has been Director of the Family Income Division of the Children's Defense Fund for nine years. Prior to that, Debbie served as Executive Director of the Massachusetts Human Services Coalition. Debbie has also served as Vice Chair of the Coalition on Human Needs Board of Directors.

The Coalition on Human Needs, [www.chn.org](http://www.chn.org), is an alliance of national organizations working together to promote public policies that address the needs of low income and other vulnerable populations.

## Fact of the Week

### Main Reason for Choice of Present Neighborhood

By Respondents to Census Bureau's American Housing Survey

	Renter	Owner
Convenient to job:	3,010,000	744,000
Convenient to friends and relatives:	1,777,000	734,000
Looks/design of neighborhood:	1,362,000	1,102,000
Good schools:	751,000	421,000
Convenient to leisure activities:	238,000	173,000
Convenient to public transportation:	185,000	29,000
Other public services:	175,000	41,000

Source: *American Housing Survey, October 2001*


**Point of View** *(cont'd from p. 1)*

This justification conveniently deflects criticism of Congress for enacting huge federal tax cuts in the face of teachers being laid off and the closing of hospital emergency rooms. As is frequently the case these days, the facts are irrelevant. States did not spend their way into this fiscal crisis. Spending increases in the 1990s were modest, the rate of growth in state spending was less than in the previous four decades, and 90% of the new spending went into education, health care, and corrections. Not only did states not go on a spending spree, they build up their collective reserves to a 20-year high. State budgets collapsed because of precipitous declines in revenue as the economy sunk. During the 1990s economic boom, most states cut taxes. Unfortunately, the boom was time limited, but the tax cuts were permanent. (See report by Liz McNichol, [www.cbpp.org/4-24-3sfp.htm](http://www.cbpp.org/4-24-3sfp.htm)).

I was in a meeting this week with a staff person for a Senator who supports the federal tax cuts and who represents a state that is in a fiscal tailspin. Having

studied the tax cut playbook, the staffer told us that his state had gotten itself into this mess and had to get itself out. This response was to be expected, but what he said next was scary. He has somehow extended this logic to assert that the state should take care of its own people, and they, the people who live in that state, are not the responsibility of the federal government. That federal tax cuts would do further damage to the state's fiscal position when the state loses federal funds was not part of his analysis. It was as if the states exist in one universe and the federal government in another.

This conversation demonstrates the potential for distortion in a political culture where people follow the script without bothering with critical thought. His comments reminded me of the member of the Texas legislature who recently complained that people got the idea that government should pay for education and health care from Moscow. Both comments are so surreal as to be laughable, except they were made by people who are representative of who is in charge of our country these days.



**National Low Income Housing Coalition**  
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**About NLIHC:** Established in 1974, the National Low Income Housing Coalition is dedicated solely to ending America's affordable housing crisis. NLIHC educates, organizes, and advocates to ensure decent, affordable housing within healthy neighborhoods for everyone. NLIHC provides up-to-date information, formulates policy, and educates the public on housing needs and the strategies for solutions.