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MEMO TO MEMBERS

The Weekly Newsletter of the National Low Income Housing Coalition

Special Edition Reports on Congressional Developments

This special edition of *Memo to Members* brings you the latest news from Capitol Hill on the fiscal cliff, sequestration and year-end movement on housing legislation.

Memo will return to its regular publication schedule after this issue. The next issue will be published January 4.

NATIONAL HOUSING TRUST FUND

Bill Introduced to Fund the National Housing Trust Fund with Savings from Modifications to Mortgage Interest Deduction

In the closing days of the 112th Congress, Representative Keith Ellison (D-MN) introduced H.R. 6677, the Common Sense Housing Investment Act. The bill, introduced on December 18, would convert the mortgage interest deduction to a flat-rate 20% tax credit, cap the maximum mortgage to receive a tax break at $500,000 and direct the majority of the savings gained from these modifications to the National Housing Trust Fund.

Individual taxpayers can calculate how these proposed changes to mortgage interest tax policy would affect their taxes by using NLIHC's housing tax reform calculator at http://bit.ly/R4D8ZM.

In addition to funding the National Housing Trust Fund, H.R. 6677 would direct funding to the Section 8 program for both project-based and tenant-based assistance and to the Public Housing Capital Fund. It would also expand the Low Income Housing Tax Credit and make it easier to use to serve extremely low income families.

H.R. 6677 had one co-sponsor, Representative Bobby Scott (D-VA).

Mr. Ellison estimates that the savings from modification would be about $27 billion a year. The bill divides those savings as follows: $15.4 billion a year to the National Housing Trust Fund, $7.7 billion a year to the Section 8 program, $2.5 billion to the Public Housing Capital Fund and $1.4 billion to the Low Income Housing Tax Credit program. The bill would also allow state agencies that administer the Low Income Housing Tax Credit to give up to a 150% basis boost for LIHTC apartments that are targeted to extremely low income households (those with incomes at or below 30% of area median income).

In a December 20 press release, NLIHC President and CEO Sheila Crowley said, "We can end homelessness in the United States if we put enough money in the National Housing Trust Fund." Further, she said, "gearing mortgage interest tax breaks more toward middle class and lower income homeowners will provide a tax benefit where it is needed most."

Under this proposed change, the number of homeowners with mortgages who would benefit from the tax break would increase from 43 million to 60 million, with 92% of the increase being households with incomes less than $100,000 a year. The increase is driven by making the tax break available to homeowners who are paying interest, but do not make enough money to itemize on their federal tax returns.

The National Housing Trust Fund was established by Congress in 2008 but has yet to be funded. Its purpose is to reduce the shortage of rental homes that are affordable for the lowest income families.

The 112th Congress ends at noon on January 3, and all bills not enacted by the time of adjournment will no longer be active. Mr. Ellison is expected to reintroduce his bill in the 113th Congress. NLIHC will continue to work with Mr. Ellison to fine-tune his bill.

As of January 1, 701 national, state and local organizations have endorsed NLIHC's proposal to reform the mortgage interest deduction and use the savings to fund the National Housing Trust Fund. Two new national organizational endorsers are the National Alliance of HUD Tenants and the Community Action Partnership.

To see the list of endorsing organizations, go to http://bit.ly/UIc9Fv.

To add your organization to the list of endorsers, go to http://bit.ly/R4CZWo.

Learn more about NLIHC's proposal at www.housingtaxreform.org.

The press release from Mr. Ellison's office can be found at http://1.usa.gov/Vukxsq.

The NLIHC press release is at http://bit.ly/Vuk8WS.

For the full text of H.R. 6677, go to http://1.usa.gov/VukOeS.

FEDERAL BUDGET

Congress Avoids Fiscal Cliff, Postpones Sequestration Fix

As 2012 drew to a close, Congress scrambled to address the nation's long-approaching fiscal challenges that lawmakers had thus far not resolved. In order to avoid taking the economy off a "fiscal cliff," Congress needed to address several issues including sequestering discretionary funds in 2013, allowing the Bush-era tax cuts expire in 2012 and the expiration of other tax-related provisions and benefits. The term fiscal cliff encapsulates the potential economic decline the nation would have faced if these challenges were all left unresolved by the 112th Congress.

Instead of addressing all of the fiscal challenges at hand, Congress decided only the tax- and benefit-related issues, while deferring a decision on how to avert the sequester by postponing the date of its implementation from January 2 to March 1.

The Budget Control Act of 2011 (BCA) required the sequestration of discretionary funds for 10 years starting on January 2, which means making across-the-board cuts to achieve a $1.2 trillion reduction in the deficit over a 10-year period (see *Memo*, 12/14/12). HUD and USDA would have had to cut affordable housing programs by 8.2% to comply with the cuts required by the BCA.

As the date the Administration would have been required to implement the sequester grew closer, numerous Republican and Democratic Members of Congress expressed agreement that the sequester was a blunt instrument for addressing spending reductions and should be replaced with another cost-saving mechanism.

Lawmakers and President Obama spent the majority of December negotiating a deal to replace the sequester and address the other fiscal issues with no success. In late November, the President produced an alternative two-part fiscal plan that would close the remaining $3 trillion deficit gap addressed by the BCA, avert sequestration and address end-of-year tax extensions (see *Memo*, 12/7/12).

House Republicans released a counter-proposal to address the fiscal cliff that included several hundred billion dollars in additional cuts to discretionary funding. These cuts could have resulted in reductions to non-defense discretionary programs that would be deeper than those imposed by sequestration, according to the Center on Budget and Policy Priorities (CBPP) (see *Memo*, 12/7/12).

The President met with House Speaker John Boehner (R-OH) numerous times in early December and, by mid-month, agreement between the two parties seemed imminent. However, Speaker Boehner lacked consensus among members of the Republican caucus and was unable to gain support for an alternative fiscal plan in the House. The House and Senate resumed session after a Christmas recess and both chambers met through the last day of 2012, when a bipartisan agreement to avert the fiscal cliff was struck in the Senate.

In the early hours of January 1, the Senate passed H.R. 8, The American Taxpayer Relief Act of 2012, a bill that partially addresses the end-of-year fiscal challenges. The bill passed by a vote of 89 to 8 with three Democrats and five Republicans dissenting. The House then passed this same bill in the late hours of January 1 by a vote of 257-167, with the majority of Republicans voting against it and the majority of Democrats voting in favor of it. The President is expected to sign the bill into law.

H.R. 8 achieves some of the Administration's and Democratic lawmakers' goals but does not address the deep spending cuts scheduled for discretionary programs.

The bill extends unemployment insurance and refundable tax credits, raises income tax rates for individuals earning more than $400,000 and households earning more than $450,000, limits certain exemptions and deductions, increases the estate tax rate and capital gains and dividends taxes and provides a permanent fix to the Alternate Minimum Tax and a one-year fix to the Medicare Sustainable Growth Rate. The bill includes significantly less revenue than the Administration and Democratic lawmakers had said was critical to include in an end-of-year agreement, putting off the battle for revenue until Congress debates the replacing of the sequester's across-the-board spending cuts.

The bill also includes language that would give more time for Low Income Housing Tax Credit (LIHTC) projects to take advantage of a minimum credit rate of 9% provided by the Housing and Economic Recovery Act of 2008. That act provided a 9% credit floor for projects placed in service before the end of 2013. The new language in H.R. 8 would provide the minimum 9% credit to projects allocated tax credits before the end of this year, but not necessarily placed in service.

The bill postpones implementation of the sequester until March 1, giving Congress two additional months to agree on an alternative spending reduction method. The cost of postponing the sequester is paid for by revenue from Individual Retirement Account transfers and from additional spending cuts, 50% of which are from security spending. In February and March, Congress would also need to address the debt ceiling and the expiration of the six-month continuing resolution (CR) providing funding in lieu of finalized FY13 appropriations bills.

H.R. 8 lowers the caps for discretionary spending in FY13 by $2 billion, which would alter the trajectory of HUD and USDA appropriations for the current fiscal year. The CR, which provides only FY12 funding levels, provides $5 billion less than the BCA's FY13 spending cap. However, several programs, including the Housing Choice Voucher Program and the Public Housing Operating Fund, would be greatly impacted if FY13 funding levels were not increased over FY12 levels. To continue serving all current residents, Section 8 voucher funding would need to be increased to account for inflation. In order to maintain quality operation of public housing units, a significant increase would be needed for FY13; in FY12, the Public Housing Operating Fund was cut when HUD required one-time contributions of reserves from public housing agencies (PHAs) to supplement the lower appropriation. With PHA reserves diminished after the FY12 contribution, the FY13 appropriation would need to provide full operating funding in order to support all current residents.

Members of the House and Senate Appropriations Subcommittees on Transportation, Housing and Urban Development, and Related Agencies (THUD) had anticipated that a final FY13 THUD bill might significantly increase several HUD programs underfunded in the House bill or the Senate Committee on Appropriations-passed bill. This now may not be possible with an FY13 spending cap lower than that required by the BCA.

View H.R.8 as passed by the Senate at http://1.usa.gov/Xj5lna.

View the CBO score of H.R. 8 as passed by the Senate at http://1.usa.gov/Xj5t61.

MORE CONGRESS

Senate Confirms Galante as FHA Commissioner

The Senate confirmed President Obama's July 2011 nomination of Carol Galante to be Assistant Secretary for Housing and Federal Housing Administrator on December 30 by a vote of 69 to 24.

Ms. Galante faced criticism from some Senators who are concerned about the fiscal health of the Federal Housing Administration (FHA), which was set up to be a self-supporting agency but may need federal financial backing due to losses realized by its products, including insurance on single family loans. Ms. Galante's nomination was approved by the Senate Committee on Banking, Housing and Urban Affairs in December 2011 (see *Memo*, 12/16/11) despite a report then that Senator Bob Corker (R-TN) had threatened to place a hold on her nomination on the Senate floor.

Republican Senators also expressed concerns about FHA's business products and protocols at a December 6, 2012 hearing of the Senate Committee on Banking at which HUD Secretary Shaun Donovan assured committee members HUD was working aggressively to protect the FHA. On December 18, 2012, Ms. Galante sent a letter to Senator Corker listing four major reforms to FHA products and business protocols the FHA is undertaking to address criticisms raised by the Senator.

Senator Corker was the only Republican member of the Banking Committee who voted for Ms. Galante's nomination on the Senate floor. Two Republican members did not vote, and the rest opposed the nomination.

View the December 18 letter at http://1.usa.gov/Vu7cQM.

DISASTER HOUSING

Congressional Inaction Delays Super Storm Sandy Supplemental Spending Bill, Tax Bill

Two measures to provide funding for housing and other needs in the aftermath of Super Storm Sandy stalled and are expected to ultimately fail in the 112th Congress.

On December 28, the Senate approved the Super Storm Sandy supplemental appropriations bill (H.R. 1) by a vote of 62 to 32. The $60.4 billion measure retains the $17 billion for disaster Community Development Block Grants (d-CDBG) requested by the Administration (see *Memo*, 12/7). However, on January 1, House Speaker John Boehner decided not to bring the bill to the floor before the 112th Congress adjourns. Bipartisan outrage was expressed through the morning of January 2.

Representative Bill Pascrell (D-NJ) introduced legislation to provide tax relief for damages related to Super Storm Sandy on December 19. A group of House Members, lead by Mr. Pascrell, had announced the details of the tax package on December 13 (see *Memo*, 12/14). The legislation, H.R. 6683, has 26 original cosponsors and was referred to the House Committee on Ways and Means. Congress has failed to act on the bill.

Among other provisions, the measure would increase the allocation of Low Income Housing Tax Credits (LIHTCs) to $8 per individual in states containing counties covered by the Super Storm Sandy disaster declaration. The bill would allow employed families in the disaster area to use their income from the previous year to calculate the Child Tax Credit and the Earned Income Tax Credit. The measure would also allocate $250 million in New Markets Tax Credits to make qualified low income community investments within the declared disaster area.

Today, Wednesday, January 2, the House voted by voice vote to adjourn until 11 a.m. Thursday, January 3. The 113th Congress is set to convene at noon January 3.

Thus, there is one more hour for legislative business in the 112th Congress. However, hope is fading that Speaker Boehner will allow the bill to be considered before final adjournment. A spokesman said Speaker Boehner plans to move the disaster relief legislation before the end of January.

The full text of H.R. 6683 is available at http://1.usa.gov/YHHUPN.

The full text of H.R. 1 is available at http://1.usa.gov/YHHWXX.

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ABOUT NLIHC

The National Low Income Housing Coalition is dedicated solely to achieving equitable federal policy that assures affordable, accessible, and healthy homes for the people with the lowest incomes in the United States.

Established in 1974 by Cushing N. Dolbeare, NLIHC educates, organizes, and advocates to ensure decent, affordable housing within healthy neighborhoods for everyone.

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.

NLIHC membership information is available at www.nlihc.org/join. You can also e-mail us at outreach@nlihc.org or call 202-662-1530 to request membership materials to distribute at meetings and conferences.

Follow @NLIHC on Twitter!

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Check out NLIHC's blog, *On the Home Front*, at www.nlihc.wordpress.com!