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The Honorable Holly Mitchell
Chair, Senate Budget Committee
California State Senate
State Capitol, Room 5050
Sacramento, CA 95814

Re: Opposition to May budget revision limiting state tax credit deductions in 2020, 21 & 22

Dear Senator Mitchell,

On behalf of the CCAH Board of Directors, I would like to respectfully object to the current budget proposal limiting state tax credit deductions to \$5 million annually for the coming 3 years. We applaud Governor Newsom for his aggressive efforts in 2019 and 2020 to attack the homeless and housing shortage in California by way of budgeting additional resources to invest in and encourage more affordable housing for low- and moderate-income household. However, the above captioned budget proposal will have the unintended consequence of negatively impacting one of the governor's primary objectives of increasing housing production for all the reasons set forth below.

First, many of the largest investors in the California state tax credit program, such as banks and insurance companies, will be prohibited from fully utilizing the state credits in which they invested in 2017 and 2018 because those credits are scheduled and originally projected to be utilized on their state tax returns in 2020, 21 and 22. For example, if any investor invested in state credits, either directly or through one of the major syndication firms such as WNC, Boston Financial, Boston Capital or Red Stone, their return will be negatively impacted due to the \$5 million limitation imposed by the budget proposal, e.g. \$10 million anticipated state tax deduction in 2020 now limited to \$5 million so that the return is significantly less than originally permitted by law and agreed to by the developer of the affordable housing project and the investor.

Second, this currently proposed limitation of \$5 million in deductions for the coming 3 years will cause the market place to pause or freeze in place, and more likely than not, cause investors to rescind offers to invest in projects not yet having closed escrow. I am referring to the \$500 million in state credit already allocated to tax exempt bond projects approved by CDLAC, CTCAC and CalHFA during the first 4 months of 2019. In addition, there is an additional \$100 million in state credit tied to the CTCAC 9% program that will be allocated in the coming months and will likely suffer some form of negative impact as to pricing.

Third, if this proposed budget measure is adopted, the pricing of the state tax credit (currently at 75 to 85 cents per credit) will certainly suffer a major downward adjustment. That will simply mean less equity money and less affordable housing production in 2020 and 2021.

For these reasons, we oppose the limitation on state tax credit utilization as proposed in the budget. Thanks for considering our views and concerns.

Sincerely,

A handwritten signature in blue ink that reads "Patrick Sabelhaus".

Patrick Sabelhaus
Executive Director

CC: Honorable Senate Budget Committee Members