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Highlights

Highlights of GAO-08-913, a report to the Committee on Finance, U.S. Senate and the Committee on Ways and Means, House of Representatives

July 2008

GULF OPPORTUNITY ZONE

States Are Allocating Federal Tax Incentives to Finance Low-Income Housing and a Wide Range of Private Facilities

Why GAO Did This Study

In 2005, Hurricanes Katrina, Rita, and Wilma devastated the Gulf Coast, destroying wide swaths of housing, key infrastructure, and numerous private businesses. In response, Congress granted the states a wide range of disaster relief, including billions of dollars of grants and tax incentives to revitalize the Gulf Coast. Specifically, the Gulf Opportunity (GO) Zone Act of 2005 (Pub. L. No. 109-135) provided tax incentives to individuals and businesses in certain presidentially declared disaster areas. Congress mandated that GAO review how state and local governments allocated and used federal tax incentives in the act and subsequent legislation.

This report (1) identifies tax incentives in the GO Zone Act of 2005 and subsequent legislation for which state and local governments have allocation and oversight responsibilities, (2) describes the procedures state governments use in allocating the tax incentives, including how they plan to monitor compliance with federal laws, and (3) describes how tax incentives have been allocated and for what purposes. To address these objectives, GAO analyzed key documentation from GO Zone states and interviewed state officials, selected local officials, and representatives from private and nonprofit entities.

What GAO Recommends

GAO is not making any recommendations. Technical comments from officials in the five states, IRS and Treasury were incorporated as appropriate.

To view the full product, including the scope and methodology, click on GAO-08-913. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

What GAO Found

States with GO Zones are responsible for allocating and overseeing the use of four tax incentives in the GO Zone Act of 2005. The table below identifies the provisions and the amounts each state received. Alabama, Louisiana, and Mississippi received allocation authority for all four provisions. Florida and Texas each received $3.5 million in GO Zone low-income housing tax credit (LIHTC) authority, but did not receive allocations under the other incentives.

GO Zone Act of 2005 Cumulative Allocation Authority by State

Dollars in millions

Incentive	Alabama	Louisiana	Mississippi	Total
GO Zone tax-exempt private activity bonds[a,c]	$2,174	$7,840	$4,921	**$14,935**
LIHTCs[a,b,c]	47	170	106	**323**
GO Zone tax credit bonds	50	200	100	**350**
GO Zone additional advance refunding bonds	1,125	4,500	2,250	**7,875**

Source: GAO analysis of Joint Committee on Taxation and Gulf Coast state data.

[a]These provisions are extensions of existing federal tax incentives. States received GO Zone allocation authority for these provisions in addition to their annual state allocation.
[b]Florida and Texas each received $3.5 million in GO Zone LIHTC authority for 2006.
[c]Dollars for private activity bonds and LIHTCs are rounded to the nearest million.

With some process variations, the three eligible states with GO Zones generally allocated bond authority on a first-come, first-served basis without consistently targeting the allocations to assist recovery in the most damaged areas. Officials in Louisiana and Mississippi acknowledged that the first-come, first-served approach led to allocating bond authority to less-damaged areas at the start of the program. The five eligible state housing finance agencies used existing processes to award GO Zone LIHTCs, but differed in how they targeted these credits. For all three bond provisions, state officials and bond issuers said the borrower's bond counsel is generally responsible for ensuring that the bonds are compliant with applicable laws when issued. State housing finance agencies plan to use existing procedures to monitor compliance once units are placed in service.

As of mid-June 2008, eligible states had allocated 87 percent of the GO Zone private activity bond authority, but bonds issued amount to about 50 percent of the total awarded allocation authority. The bonds issued will be used to finance a wide range of facilities, including manufacturing facilities, utilities, housing, retail facilities, and hotels. State housing finance authorities have awarded 95 percent of the GO Zone LIHTCs. Although few housing units are currently in service, state housing finance agency officials said planned units will be in service by the mandated deadline. GO Zone LIHTC-funded units will address about 17 and 45 percent of the rental housing units with major or severe damage in the states of Louisiana and Mississippi, respectively. The three eligible states with GO Zones used the tax credit bonds and additional advance refundings to varying degrees to provide debt relief. State officials said current economic conditions pose challenges for using both GO Zone bond and LIHTC financing.