



BLAIR LEE III
ACTING GOVERNOR

STATE OF MARYLAND
EXECUTIVE DEPARTMENT
ANNAPOLIS, MARYLAND 21404

August 16, 1978

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SECRETARY
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Honorable Jerome Kurtz
Commissioner of Internal Revenue
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

Dear Mr. Kurtz:

The State of Maryland Community Development Administration has submitted a request for a ruling concerning tax-exempt financing for residential rehabilitation projects in the State. The purpose of this letter is to ask that the ruling request receive expedited treatment by the Internal Revenue Service.

As you are aware, rehabilitated housing plays a central role in the housing policy of the State and the Federal government. The stock of housing available to meet the ever burgeoning needs of our low and moderate income residents is limited. Moreover, the cost of new housing to meet those needs in these inflationary times is virtually prohibitive. Rehabilitation of residential properties enables the State to revitalize blighted urban areas while producing substantial additional housing for low and moderate income residents at a cost far lower than the cost of new construction.

As I understand the legal issues, it appears that recent revenue rulings have created uncertainty as to whether most rental rehabilitation projects can be financed with tax-exempt bonds. As a practical matter, bonds necessary for such financing cannot be issued without a legal opinion as to the tax-exempt status of the bonds, and bond counsel will not issue such an opinion in the face of ambiguous tax law. The uncertainty in the law thus has precluded CDA from processing the applications for rehabilitation financing. After considerable deliberation, attorneys from CDA have opined that only a ruling from the Internal Revenue Service can eliminate the uncertainty and enable CDA to proceed with financing these projects.

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AUG 23 1978

Honorable Jerome Kurtz
August 16, 1978
Page 2

At this juncture, CDA has received applications for financing of rehabilitation type projects in amounts exceeding \$10,000,000 in the aggregate, and additional applications are received each week. These applications are being held in suspense pending the outcome of the ruling request. The continuing delay in resolution of the legal issues produces a significant danger that the owners of these projects will begin other types of rehabilitation and divert the properties to other than low and moderate income residential purposes.

I realize that execution and formulation of housing policy is not the responsibility of the Internal Revenue Service. I only hope that this letter points out the urgent need for such housing, so that the ambiguity in the law can be eliminated as soon as practicable and processing of these projects resumed.

Thank you for your cooperation in this matter.

Sincerely yours,

Blair Lee III
Acting Governor