

ASSEMBLY BILL 35

LOW INCOME HOUSING TAX CREDIT

ASSEMBLYMEMBER DAVID CHIU AND ASSEMBLY SPEAKER TONI ATKINS

SUMMARY

Assembly Bill 35 (Chiu & Atkins) would increase California's Low Income Housing Tax Credit by \$300 million for the construction and rehabilitation of affordable housing units across the state. It will achieve this not only by increasing the amount of California credit, but also by increasing the state credit percentage so that it can more effectively maximize federal tax-exempt bond financing and 4% credits. This state investment and policy change would leverage an estimated additional \$600 million in federal 4% tax credits and federal tax-exempt bond authority.

THE ISSUE

California is undergoing a major housing affordability crisis with a shortfall of over 1 million affordable homes. According to a 2014 report by the California Housing Partnership Corporation, median rents in California have increased by over 20%, while the median income has dropped by 8%.

State and Federal divestment in affordable housing has exacerbated this problem. With the elimination of California's redevelopment agencies and the exhaustion of state housing bonds, California has reduced its funding for the development and preservation of affordable homes by 79% - from approximately \$1.7 billion a year to nearly nothing. There is currently no permanent source of funding to compensate for this loss.

The housing crisis has contributed to a growing homeless population, increased pressure on local social safety nets, an unstable development and construction marketplace and the departure of tens of thousands of long-time California residents.

BACKGROUND

The Low Income Housing Tax Credit Program was enacted by Congress in 1986 to provide the private market with an incentive to invest in more affordable housing through federal tax credits. The California Tax Credit Allocation Committee was directed to award these credits to developers of qualified projects in the state. Developers sell these credits to investors to raise capital for their projects, reducing the debt that the developer would otherwise have to borrow. As a result, property owners are able to offer lower, more affordable pricing. In response to the high cost of developing housing in California, the state legislature in 1987 authorized a state low-

income housing tax credit program to leverage the federal credit program. Existing law limits the total amount of low-income housing tax credits the state may allocate to \$70 million per year, indexed for inflation. But due to increased demand for housing development, much of the tax credit program has been oversubscribed – leaving many high quality developments without a secure source of funding.

However, there is an untapped federal low-income housing tax credit that the state can still access—the 4% Federal Tax Credit. These 4% federal credits are unlimited and remain unused by the state. This is largely due to the fact that the 4% credits require additional state resources to make the development viable – resources that have been lacking under existing law.

AB 35 would substantially bolster the existing low-income housing tax credit program, making the state better able to leverage an estimated \$200 million more in 4% Federal Tax Credits. Additionally, the expanded state credits under AB 35 would allow the state to more effectively leverage an additional \$400 million in federal tax exempt bond authority.

AB 35

As a part of Speaker Toni Atkin's 2015 Affordable Housing Legislative Package, AB 35 would increase the aggregate housing state credit dollar amount that may be allocated among low-income housing developments by \$300 million and allow the state to more effectively leverage federal tax-exempt bond financing and 4% credits.

SUPPORT

California Housing Partnership (Co-Sponsor) | California Housing Consortium (Co-Sponsor) | Non-Profit Housing Association of Northern CA (Co-Sponsor) | California Treasurer John Chiang | San Francisco Mayor Edwin M. Lee | Los Angeles Mayor Eric Garcetti | Oakland Mayor Libby Schaaf | San Diego Mayor Kevin L. Faulconer | CORE Affordable Housing | Housing California | Larkin Street Youth Services | Women Organizing Resources, Knowledge and Services | Northern CA Community Loan Fund | Community Housing Opportunities | Shelter Partnership | HIP Housing | San Francisco Housing Action Coalition | California Center for Cooperative Development | Hudson Housing Capital | Jamboree | Satellite Affordable Housing Associates | Highridge Costa Housing Partners LLC | HKIT Architects

** Partial List*