How Housing Prices Drive California’s High Cost of Living and What We Can Do

CBPC Policy Insights Conference
March 22, 2018

California Housing Partnership
• Created by State Legislature (1988) to provide leadership on affordable housing policy issues
• Governor, Speaker & Pro Tem appoint board but a private nonprofit in all other respects
• Provides TA to more than 100 NP & Gov’ts
• Financed 70,000+ affordable rental homes
• Provided training to 15,000+
• Advocate for energy/water access for renters
What Should the CA Legislature Do?

1. Use $2 billion of the $6 billion State budget surplus to:
   a. Create and preserve 15,000 affordable rental homes ($1B)
   b. Provide homeless housing subsidies & services ($1B)
   c. SB 912 (Jim Beall, San Jose)

2. Pass Make It Fair Proposition 13 Commercial Property Tax Reform in November and use $1 billion of the $11 billion of new funding annually to replace former redevelopment $$ and create 15,000 more homes/year

3. Pass the Veterans and Affordable Housing Bond Act of 2018 to provide $4 billion in funding to create and preserve 50,000 affordable homes
What is the role of Federal Housing Programs in California, What is at Stake and What Should be Done?

Federal Low Income Housing Tax Credits now assist more CA households than Vouchers

Number of assisted units in CA in 2017, in thousands

Largest federal housing program $ in CA in 2017

Compiled by CHPC and CBPP from HUD, OMB, USDA sources
What is the Low Income Housing Tax Credit?

• Examples of Tax Credits include:
  - Earned Income Tax Credit
  - Child Care Tax Credit
  - Higher Education Tax Credit
• 1986 Tax Reform Act Created the Housing Credit (Section 42 of the IRC)
• In CA, the Tax Credit Allocation Committee is the allocating agency
  - Developers (nonprofit and for-profit) apply to TCAC for housing credits
  - Amount of credits is based on eligible construction related costs
  - TCAC monitors projects for 15/55-year compliance period (per Section 42)
  - Developers “sell” housing credits to investors who use the credits to reduce taxes over 10-year period
  - Investors pay cash up front which is used to build the housing

LIHTC – Credits, Income and Rent Limitations

• Housing Credit Equity investment typically pays for 30-65% of total development costs
• Remaining costs paid with private and local government loans
• Initial incomes must not exceed 60% AMI with averages closer to 45% AMI if competitive programs are used
• Rents restricted for 55 years and must be ≤ 30% Area Median Income level (e.g. 30%, 50% and 60% AMI) assuming 1.5 persons per bedroom
• Gross rents include utility allowance

Impact of Tax Reform on CA LIHTC 2017

• 2016 California LIHTC Market value was $3.6 billion
• In 2017, California LIHTC Market value dropped $1.4 billion (39%) to $2.2 billion, more than three times bigger than predicted
• Affordable rental home production dropped 45% from 24,319 in 2016 to 13,335 in 2017
• New construction rental homes dropped 20% from 9,285 in 2016 to 7,407 in 2017
• Acquisition/Rehab dropped 61% from 15,032 in 2016 to 5,928 in 2017
What Do We Ask Congress to Do?

1. Include provisions from bipartisan bills to improve the LIHTC: S. 548/H.R. 1661
2. Defend Community Reinvestment Act (CRA) Regulations that incentive banks to purchase invest in and lend to affordable housing
3. Fully fund HUD & USDA housing programs
4. Fight unfair tenant & owner rent policies