BACKGROUND ON FINANCING PROGRAMS FOR AFFORDABLE HOUSING

Developing housing that is affordable to very low- and low-income families[1] requires some amount of subsidy. The high cost of land and construction in California generally makes it economically impossible to build new housing that can be sold or rented at prices affordable to such households. The private sector sometimes provides financial subsidies or land donations mandatorily through inclusionary zoning policies or voluntarily through density bonus ordinances described below. In most cases, however, some amount of public financial subsidy is needed from federal, state, and/or local governments.

There are four state agencies involved in financing the development of affordable housing. Below is a brief description of each of these state agencies and their programs.

California Department of Housing and Community Development

The Department of Housing and Community Development (HCD) administers a variety of programs to meet a large range of housing needs, including emergency shelters and transitional housing, affordable rental housing, and affordable homeownership. As a general rule, HCD administers programs that receive money from the state's General Fund, either directly through the budget or indirectly from general obligation bonds. In addition, HCD allocates certain federal funds, such as the HOME Program and the Community Development Block Grant Program, for smaller jurisdictions that do not receive these funds directly from the federal government. More recently, HCD, in collaboration with California Housing Finance Agency and California Department of Veterans Affairs, is administering $600 million in general obligation bonds to provide multifamily housing to veterans pursuant to the voter-approved Veterans Housing and Homeless Prevention Bond Act of 2014. HCD's major programs include:

- The Multifamily Housing Program, which finances affordable rental housing
- The Farmworker Housing Grant Program, which funds housing for farmworker families
- The CalHome Program, which funds activities to help low-income families become or remain homeowners
- The Emergency Housing Assistance Program, which finances the development and operation of homeless shelters and transitional housing

[For a more complete listing of HCD's current programs, see http://www.hcd.ca.gov/fa/.]

California Housing Finance Agency

The California Housing Finance Agency (CalHFA) is the state's affordable-housing bank. CalHFA borrows money from the private financial market at below-market interest rates by issuing tax-exempt revenue bonds. CalHFA passes these interest rate savings on to low- and moderate-income first-time homebuyers and affordable rental housing developers by offering below market-rate mortgages. These

[1] Low-income households are those whose members earn less than 80% of the county median income. Very low-income households are those whose members earn less than 50% of the county median income. State and federal standards deem housing affordable when households spend no more than 30% of their income on housing.

bonds are backed only by CalHFA revenues and not by the state General Fund. CalHFA also provides downpayment assistance in the form of deferred, “silent second” mortgages (i.e., the borrower makes no monthly payments but repays the loan at sale or refinance) for families who need extra assistance achieving homeownership. [http://www.calhfa.ca.gov/.]

On behalf of counties that choose to dedicate some of their revenues from Proposition 63 — the 1% additional income tax on upper-income earners for mental health services — for supportive housing, CalHFA also administers the Mental Health Services Act Housing Program in coordination with the Department of Mental Health. This program provides developers of affordable housing who agree to set aside units for persons with mental illness with both capital funding and critical operating and service funding, which are needed to provide essential services and compensate for the little amount of rent that these residents are able to pay.

Tax Credit Allocation Committee

Both state and federal laws allow for tax credits to be awarded each year to the developers of affordable rental housing. The Tax Credit Allocation Committee (TCAC) within the State Treasurer’s Office allocates these tax credits to individual developments. Because the developers who receive credits generally have little or no tax liability of their own, they invite corporations to buy in to their projects in order to take advantage of the tax credits. The federal government provides two types of tax credits, known as 9% and 4% credits. TCAC allocates a defined amount of 9% credits through a highly competitive system, and these equity investments can cover up to 60% of a project’s total development cost. Four percent credits come automatically with an allocation of tax-exempt bond financing from the Debt Limit Allocation Committee. These 4% credits are less valuable, but the overall supply is unlimited. [http://www.treasurer.ca.gov/ctcac/.]

Debt Limit Allocation Committee

Federal law also allows state and local governments to issue a defined amount of tax-exempt “private activity” bonds each year in order to facilitate private development, including the development of affordable housing. The California Debt Limit Allocation Committee (CDLAC) within the State Treasurer’s Office allocates this private activity bond authority in California. The primary beneficiary is affordable rental housing. Tax-exempt bonds lower the interest rate that developers pay on their mortgages. Projects that receive tax-exempt bond funds also automatically receive federal 4% low-income housing tax credits. [http://www.treasurer.ca.gov/cdlac/.]

Strategic Growth Council

In 2014, the Legislature committed ongoing funding derived from the California Air Resources Board’s Cap-and-Trade Program to the state’s Strategic Growth Council (SGC) to administer the Affordable Housing and Sustainable Communities Program. This program will fund land use, housing, transportation, and land preservation projects to support infill and compact development that reduces greenhouse gas emissions. At least half of the funds must support affordable housing projects. While the SGC is still formulating the specifics of the program, affordable housing near transit will likely be a major focus. [http://www.sgc.ca.gov/.]

LOCAL RESOURCES

In addition to these state programs, local governments may have additional resources to support affordable housing. Cities and counties with more than 50,000 residents ("entitlement jurisdictions") receive HOME and Community Development Block Grant funding directly from the federal government, both of which may be used to support affordable housing. Much less common are local housing trust funds that receive dedicated fee revenues, such as commercial development linkage fees, a portion of transient occupancy taxes, or other sources. Cities and counties that used to have redevelopment agencies may also have limited income from the payback of old loans (known as "program income") that remains available for affordable housing purposes.

In addition to providing public funds, more than 100 cities and counties have adopted inclusionary housing ordinances, requiring developers of market-rate housing to build, dedicate land for, or pay in-lieu fees to support the development of affordable housing. State law also requires local governments to provide "density bonuses" of up to 35% to projects that include specified percentages of affordable housing. With a density bonus, a developer is able to build more units than the zoning otherwise allows, which allows the developer to use the additional revenue to offset the cost of providing the affordable units.

Due to the loss of redevelopment funds, the legislature approved and the governor signed two pieces of legislation to permit local jurisdictions to fund affordable housing through tax increment financing. The first bill, SB 628 (Beall, Chapter 785, Statutes of 2014), allows a city or county to create an Enhanced Infrastructure Financing District (EIFD) to finance specified facilities and infrastructure projects, including housing for low- and moderate-income households using tax increment revenue. The second bill, AB 2 (Alejo, Chapter 319, Statutes of 2015) authorizes local governments to create Community Revitalization and Investment Authorities (Authority) to use tax increment revenue to improve the infrastructure, assist businesses, and support affordable housing in disadvantaged communities. AB 2 also requires that not less than 25% of all taxes that are allocated to the Authority be deposited into a separate Housing Fund and used for the purposes of increasing, improving, and preserving the community's supply of low- and moderate-income housing available at an affordable cost.

PUTTING ALL THE PIECES TOGETHER

Because housing is so expensive to build and the amount that a low-income household can reasonably afford to pay is relatively low, a significant amount of subsidy is needed for each affordable unit. In practice, this means that a developer must cobble together multiple sources of financing to make a project feasible. In general, there are two main building blocks to fund an affordable rental housing development: 1) 9% tax credits and 2) 4% tax credits with Multifamily Housing Program (MHP) funds from HCD. In both cases, almost invariably a funding "gap" still exists that the developer must fill from other sources, usually those available from local governments.

DWINDLING RESOURCES AND THE CAMPAIGN FOR A PERMANENT SOURCE

The affordable housing community at this time is facing the exhaustion of state housing bond funds. In 2002, voters approved $2.1 billion for affordable housing through Proposition 46. Voters approved an additional

$2.85 billion through Proposition 1C in 2006. For the most part, HCD has awarded all of these funds, and no concrete plan currently exists to refund these programs. Moreover, the lack of MHP funds will make it unlikely that developers will be able to use tax-exempt bonds and 4% tax credits that are available because they will have no way to fill the large remaining gap. While the 9% tax credit program remains a stable source of funding for affordable rental housing, the loss of redevelopment funds has made it extremely difficult to fill even these lesser financing gaps.

One solution to allow for a steady and significant level of affordable housing production is to create a new revenue stream dedicated to affordable housing programs (commonly known as a "permanent source"). SB 391 (DeSaulnier) of the 2013-14 session and AB 1335 (Atkins) of the 2014-15 session would have created such a permanent source by imposing a fee of $75 on the recordation of each real estate document, except those related to a sale. Because this recording fee is actually a tax, both SB 391 and AB 1335 required a 2/3 vote. The Senate passed SB 391 in 2013, but the Assembly did not take it up, so the bill failed to become law. AB 1335 did not pass off the Assembly Floor, so the bill failed to become law in 2015.