CALIFORNIA’S AFFORDABLE HOUSING FUNDING NEEDS AND SOLUTIONS

Matt Schwartz, President & CEO
California Housing Partnership Corporation
California Housing Partnership Corporation

- Created by Legislature in 1988
- Board appointed by Speaker, Pro Tem + Governor
- No state funding, not a state agency (nonprofit)
- Helped private and public housing developers leverage more than $12 billion in private and public funding to create and preserve more than 60,000 affordable homes, while providing leadership on rental housing policy and funding
There is a shortfall of over 1.54 million affordable homes for low income renter households.

Not one county in CA has a sufficient number of affordable rental homes
HOW DID WE GET HERE?
From 2005 to 2014, the state gained 875,000 renter households and lost 214,000 owner households.
From 2000-2015, California median rent increased 25% while median renter income declined 4%.

2015 and 2016 are estimated based on trend data.
California’s affordable housing funding has declined 66.5% since 2008 - over 1.7 billion dollars.

<table>
<thead>
<tr>
<th>CAPITAL FUNDING SOURCE</th>
<th>FY 2008 -2009</th>
<th>FY 2014-2015</th>
<th>% CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redevelopment</td>
<td>$1,142,555,324</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>State Housing Bonds &amp; Other State Funding</td>
<td>$680,429,821</td>
<td>$328,341,578</td>
<td>-52%</td>
</tr>
<tr>
<td>HUD</td>
<td>$778,782,375</td>
<td>$545,325,816</td>
<td>-30%</td>
</tr>
<tr>
<td>Total</td>
<td>$2,601,767,520</td>
<td>$873,667,394</td>
<td>-66.5%</td>
</tr>
</tbody>
</table>
Poverty increases in 9 of California’s 10 most populous counties when housing costs are considered.

The state’s poverty rate rises from 16.2% to 21.2%.

24% of California children are living in poverty mostly due to high housing costs.

<table>
<thead>
<tr>
<th>COUNTY</th>
<th>OPM: Unadjusted for Housing Costs</th>
<th>CPM: Adjusted for Social Programs &amp; Housing Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>18.3%</td>
<td>25.7%</td>
</tr>
<tr>
<td>San Diego</td>
<td>14.5%</td>
<td>21.5%</td>
</tr>
<tr>
<td>Orange</td>
<td>12.6%</td>
<td>21.8%</td>
</tr>
<tr>
<td>Riverside</td>
<td>16.6%</td>
<td>20.1%</td>
</tr>
<tr>
<td>San Bernardino</td>
<td>19.2%</td>
<td>19.4%</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>10.1%</td>
<td>18.0%</td>
</tr>
<tr>
<td>Alameda</td>
<td>12.4%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Sacramento</td>
<td>18.0%</td>
<td>18.2%</td>
</tr>
<tr>
<td>Contra Costa</td>
<td>11.6%</td>
<td>16.9%</td>
</tr>
<tr>
<td>Fresno</td>
<td>27.1%</td>
<td>21.2%</td>
</tr>
</tbody>
</table>

Source: Public Policy Institute of California
California households with the lowest 25% of incomes spend 67% of their income on housing, leaving little left over for other essential needs and driving these households into poverty.

**CALIFORNIA HOUSEHOLD EXPENDITURES BY INCOME**

**HOUSEHOLDS IN LOWEST INCOME QUARTILE**
- Food, Transportation, Health Care, and other needs: 33%
- Housing: 67%

**MEDIAN INCOME HOUSEHOLD**
- Food, Transportation, Health Care, and other needs: 73%
- Housing: 27%

Financing Solutions to Begin to Close the Affordable Housing Gap
Keys to Affordable Rental Housing Finance

1. Costs paid for by combination of:
   A. Private bank mortgage (but adding debt increases rents)
   B. Investor Equity (through sale of tax credits & deductions)
   C. Subsidy (federal, state and/or local funds)

2. Affordability created by equity & subsidy, not debt
Low Income Housing Tax Credit Program

• Housing Credit program created by Congress in 1986 to help states finance workforce housing

• US Treasury allocates Credits to states, which allocates Credits to developers over 10 years

• Investors pay developers $0.95 for each credit plus share of deductions (down from $1.10 in 2016)

• Credits have created 350,000 homes in CA

• Default rate less than 0.1%

• Most successful private-public partnership
Housing Credit Drives All Production in CA

- Two types of Credit: capped 9% and 4% uncapped
- In 2016, CA used 9% credits to generate $1 Billion and 4% Credits to generate $1.4 billion in equity
- 9% federal Credit oversubscribed >2:1
- Ability to obtain federal 4% Credits limited by (1) state bond allocation availability, and (2) matching state gap subsidy
Key Rental Housing Financing Facts

• California created the Multifamily Housing Program in 2003 specifically to leverage 4% Housing Credit equity from federal government

• From 2003-2015, CA invested $1.5 billion in Propositions 46 and 1C and GF$ to create and preserve a total of almost 25,000 homes via MHP

• Of these, MHP funded the construction of nearly 20,000 new rental homes at only $67,000 per unit

• Even without Redevelopment $, MHP per unit cost did not increase significantly in 2014-2015
Key Rental Housing Financing Facts

• For each $70,000 in new state subsidy, CA receives $120,000 to $150,000 in federal 4% Housing Credit investment to create one new affordable rental home with sufficient local funds

• Voters in Los Angeles and Bay Area approved more than $3 Billion in 2017 as their contribution

• State could increase production by 14,000+ new homes annually if we invest $1 billion in matching state $$, as with Propositions 46 and 1C
Options for State to Raise Gap Funds

1. Documentary recording fee ($300M/year)
2. Elimination of MID on 2\textsuperscript{nd} Homes ($300M/year)
3. Elimination of some 1031 exchange exemptions for large corporations ($300M+/Year)
4. Tax on bank profits in CA (FDIC insured institutions with assets of >$100M)
   a. Profits of $6B in 2016, up >35% from 2015
   b. 5% windfall tax would be $300M/year