



*California's Experts on Affordable
Housing Finance, Advocacy & Policy*

TWO PROPOSALS FOR INCREASING THE VALUE OF THE CALIFORNIA LOW INCOME HOUSING TAX CREDIT

Presentation to the Assembly Committee on Housing

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By

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The California Housing Partnership

The California Housing Partnership

www.chpc.net

- Is a nonprofit organization created by the state in 1988 to provide leadership on rental housing funding and housing preservation policy
- Has a board appointed by the Speaker, Pro Tem and Governor
- Has assisted developers leverage more than \$5.5 billion in private and public capital to create and preserve more than 22,000 affordable homes
- Provided training to more than 10,000 people

Financing Low Income Rental Housing with Tax Credits First Steps

1. Determine total development cost
2. Set rents to be affordable for target income group using federal/state regulations
3. Calculate maximum private debt financing
4. Secure federal, state and local grants in the form of long term residual receipts loans
5. Obtain low income housing tax credits, sell to corporate investors for equity to fill gap

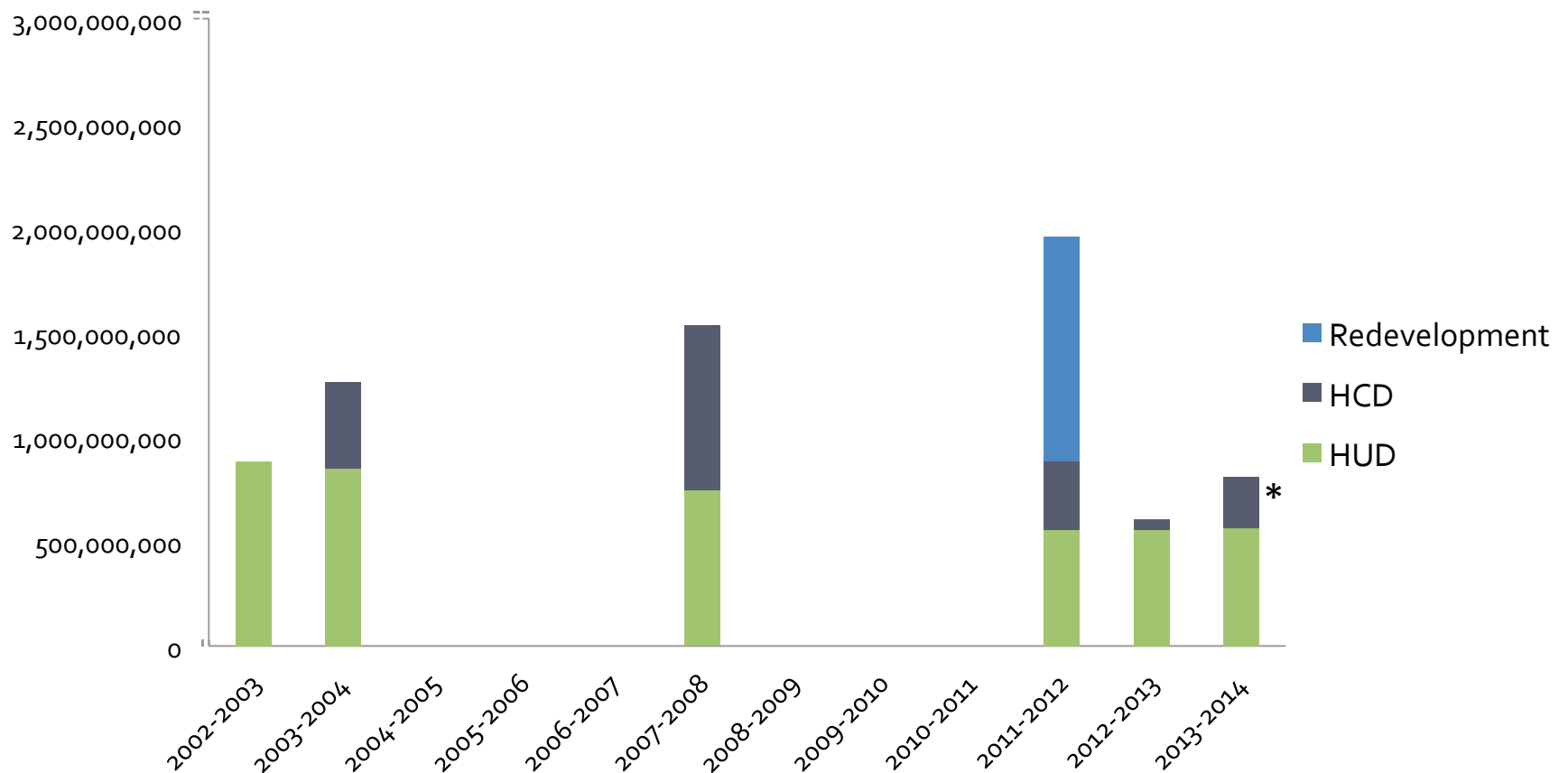
The Challenge for California Housing Developers

- The 9% federal Low Income Housing Tax Credit is an oversubscribed capped per capita resource (requests for more than twice the amount available annually)
- The 4% federal Credit, while much lower in value, is an uncapped federal resource
- The ability of California developers to use the 4% federal Credit is highly dependent on the availability of state and local funding to fill the gap due to its lower value

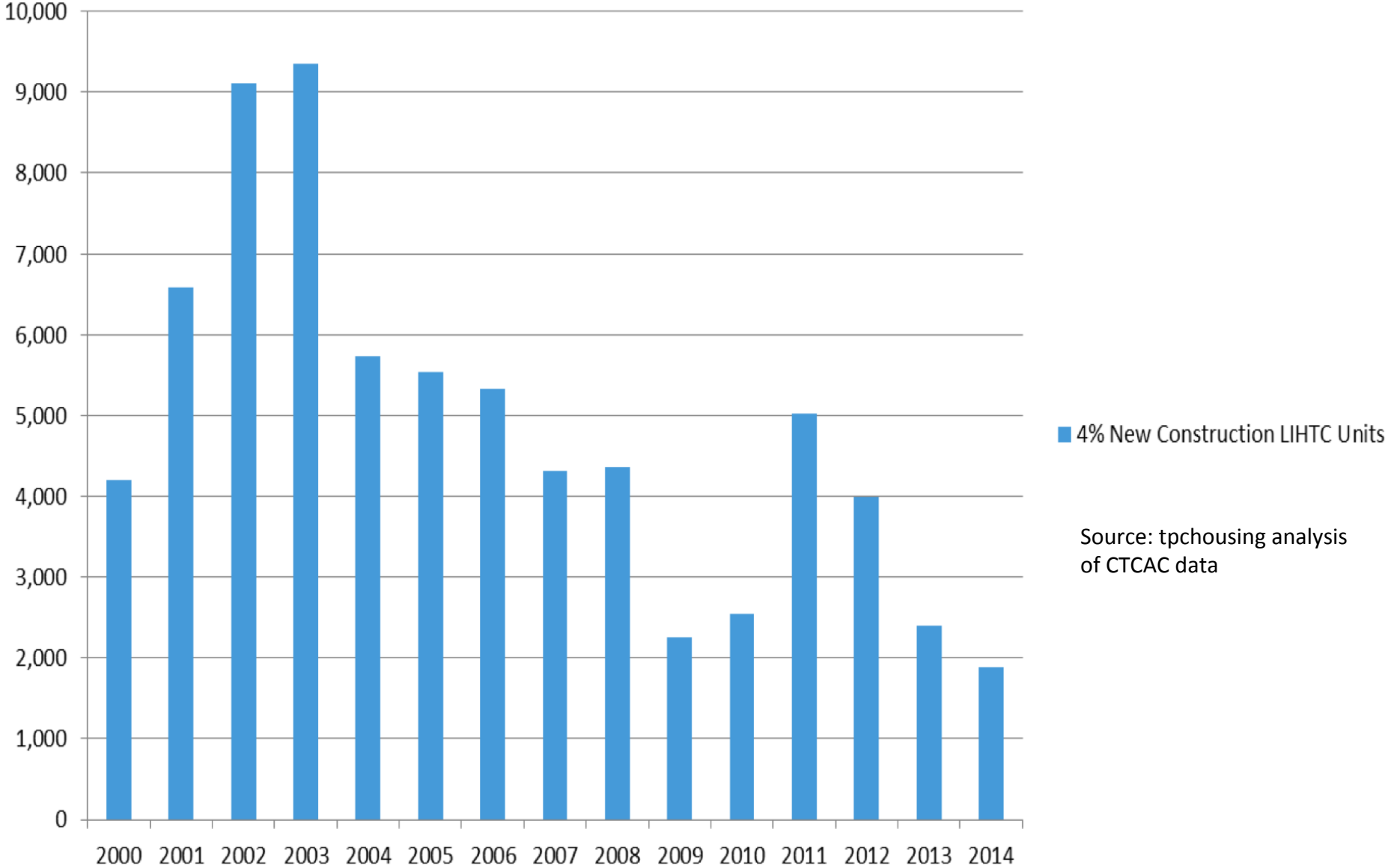
The Challenge and the Opportunity

- The dramatic combined loss of federal, state and local funding at the beginning of this decade has led to a decline in the already inadequate level at which CA developers are using federal 4% Credits
- [See charts on next two pages]

The end of redevelopment, exhaustion of state bonds, and federal budget cuts have reduced CA affordable housing funding to historic lows.



Total Funded 4% New Construction LIHTC Units



The Opportunity: Expand the State LIHTC

- The solution: expand and repurpose the California LIHTC to leverage a greater amount of 4% federal Credits
- State LIHTC created in 1987 as a complement to the federal Low Income Housing Tax Credit
- Original amount \$70 million/year set in 1970
- Indexed for inflation
- Amount adjusted annually by forward committed amounts and remaining balances

C Low Income Housing Tax Credit - Amounts

<u>TCAC State Tax Credit Estimates</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Statutory Base Number	70,000,000	70,000,000	70,000,000	70,000,000
<u>Plus State Credit CPI Adjustment</u>	<u>20,217,247</u>	<u>21,787,949</u>	<u>23,174,357</u>	<u>23,871,159</u>
Total State Tax Credits Available	90,217,247	91,787,949	93,174,357	93,871,159
Plus Carry Forward from Prior Year	17,650,991		10,453,876	
Less Advance Allocations Prior Year	-8,186,779	-2,321,248		-7,122,983
<u>Plus Return Credits</u>	<u>2,195,278</u>	-	<u>266,127</u>	<u>243,012</u>
Adjusted State Tax Credits Available	101,876,737	89,466,701	103,894,360	86,991,188

C Housing Tax Credit Usage i 2014

- 2014 CA Credits available \$105.1 million
 - Allocated for federal 9% projects: \$88.3 million
 - Allocated for federal 4% projects: \$15.6 million
- 2014 CA Credits awarded = \$115.5 million including \$10.4 million forward committed from 2015
 - Allocated to federal 9% projects: \$101 million
 - Allocated to federal 4% projects: **\$14.5 million**
 - **Only 8 of 21 requests for CA Credit for use with federal 4% credits were funded in 2014**

C Low Income Housing Tax Credit Opportunity

1. Only 15% of CA Credit is currently available to be used in combination with unlimited federal 4% Tax Credits
2. But the CA Credit % for use in combination with federal 4% Credits of 13% is limited to less than half the amount available for projects using the federal 9% Credit (30%).

Firs Solution: Increase the Value and Amount o the C LIHTC

1. Increase the CA Credit % specifically for use in leveraging 4% federal Credits from the current 13% to 50% to make its value more comparable to the capped 9% Credit
2. Increase the amount of CA Credit available annually by \$300 million to leverage at least \$200 million in 4% federal credit and \$400 million in federal tax-exempt bond financing

Firs Solution: Increase the Value and Amount o the C LIHTC (continued)

3. In addition to leveraging \$600 million in new federal resources, a \$300,000 million increase in the state credit should produce at least 2,000 affordable homes annually providing housing for about 4,800 low income people
4. The cost per person to the state to house each low income person would be approximately \$62,500 over 15-20 years

Second Solution: Increase the Value of the CA LIHTC by Allowing it to be Certificated

Allow the CA Credit to be certificated so that nonprofit sponsors can syndicate it to investors without having to pay federal taxes

- Currently, every dollar of state LIHTC is taxed 35% upon sale reducing its net value to \$0.65
- Other states have certificated their credits so that nonprofit organizations can sell them without paying federal taxes

Second Solution: Allow the California LIHTC to be Certificated (continued)

- Allowing the CA Credit to be certificated effectively increases the net value of the state Credit from its current \$0.65 to \$0.85-\$0.90
- This is equivalent to increasing the value of the state credit by more than 40%