**BACKGROUND ON FINANCING PROGRAMS**

**FOR AFFORDABLE HOUSING**

Developing housing that is affordable to very low- and low-income families[[1]](#footnote-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.

According to the California Housing Partnership Corporation (CHPC) many mistakenly assume that the state must pay for the entire $332,000 average cost of each new affordable rental home. CHPC possesses 15 years of data from the California Department of Housing and Community Development showing that the average cost to the State’s main affordable housing program to produce 25,000 affordable rental units since 2002 has been about $70,000 per unit.

Given that each new affordable home conservatively serves five households during the term of the state’s 55-year investment and assuming an average two-bedroom unit size and three-person occupancy, each $70,000 of state investment produces housing for 15 low-income persons over 55 years. This works out to be a cost of about $425 per person per year.

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. In 2016, the Legislature passed and the Governor signed legislation to enact the No Place Like Home program to dedicate $2 billion in bond proceeds to invest in the development of permanent supportive housing of persons who are in need of mental health services and are experiencing homelessness, chronic homelessness, or are at risk of chronic homelessness. HCD’s major programs include:

* The Veterans Housing and Homeless Prevention Program (Prop 41), in collaboration with California Housing Finance Agency and California Department of Veterans Affairs, which finances affordable multifamily rental, supportive, and transitional housing for veterans and their families. Of the $600 million available, HCD has awarded $241.5 million.
* The Multifamily Housing Program, which finances affordable rental housing. This program is currently not funded.
* The Farmworker Housing Grant Program, which funds housing for farmworker families. This program will likely enjoy funds available from SB 2 (Atkins, Chapter 364, Statutes of 2017).
* 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/financial-assistance/>.]

**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 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.

CalHFA will enjoy 15% of the funds generated by SB 2 (Atkins, Chapter 364, Statutes of 2017) for the purposes of creating mixed income multifamily residential housing for lower or moderate income households.

**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. Generally, due to significant revenue uncertainty, HCD cannot always predict the amount of for the next round of applications from the Greenhouse Gas Reduction Fund. To date, HCD has awarded $289 million, and just released a NOFA for approximately $255 million. [<http://www.sgc.ca.gov/>.]

**FEDERAL RESOURCES**

California receives funding annually from three major programs: HOME Investment Partnerships Program (HOME), Emergency Solutions Grants (ESG) Program, and Community Development Block Grant (CDBG) Program. More urban areas, called entitlement areas, receive funding directly from the feds. California’s Department of Housing and Community Development (HCD) is provided a smaller amount from the feds, which is then awarded to more rural, non-entitlement areas.

* *HOME* *Program -* provides formula grants to States and localities, often in partnership with local nonprofit groups, to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people. HOME is the largest Federal block grant to state and local governments designed exclusively to create affordable housing for low-income households. In 2016, California entitlement jurisdictions received $99 million and HCD received $31 million for non-entitlement jurisdictions.
* *ESG* *Program* - provides funding to: (1) engage homeless individuals and families living on the street; (2) improve the number and quality of emergency shelters for homeless individuals and families; (3) help operate these shelters; (4) provide essential services to shelter residents, (5) rapidly re-house homeless individuals and families, and (6) prevent families/individuals from becoming homeless. In 2016, California entitlement jurisdictions received $20.4 million and HCD received $12 million for non-entitlement jurisdictions.
* *CDBG Program* - a flexible program that provides communities with resources to address a wide range of unique community development needs, including affordable housing. In 2016, California entitlement jurisdictions received $329 million and HCD received $28 million for non-entitlement jurisdictions.
* *National Housing Trust Fund (NHTF)* - a new affordable housing production program that will complement existing Federal, state and local efforts to increase and preserve the supply of decent, safe, and sanitary affordable housing for extremely low- and very low-income households, including homeless families. HTF funds may be used for the production or preservation of affordable housing through the acquisition, new construction, reconstruction, and/or rehabilitation of non-luxury housing with suitable amenities.  In 2016, California received $10 million.

While combined funding for HOME, ESG and CDBG has been reduced by 34% the past 10 years, there have been discussions about further cuts to federal housing programs. Congressional Republicans have spoken this year about 1% funding cuts for discretionary funding across the board. According to the Department of Finance, the HOME and CDBG programs are most at risk of being cut by 2/3 or cut completely. In fact, the President’s proposed budget eliminates both programs. It also contemplates a reduction in 27,000 housing choice vouchers.

**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. 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. Combined with the loss of redevelopment funds for affordable housing, California has lost about $1.5-1.7 billion per year in dedicated funds for housing.

One option to fill the gap is for the state to dedicate a permanent source of revenue to fund programs on a consistent basis that provide housing and homeownership opportunities for those families not served by the market. After several legislative attempts, the Legislature passed and the Governor signed SB 2 (Atkins, Chapter 364, Statutes of 2017), which creates a permanent source of funding for housing available to the homeless, and affordable to lower- and moderate-income families. The bill imposes a $75 fee on real estate transaction documents, excluding commercial and residential real estate sales, to provide funding for affordable housing

Another solution is the passage of another statewide housing bond, similar to Propositions 46 and 1C. In 2017, Senator Beall introduced SB 3 (Chapter 365, Statutes of 2017), a $4 billion statewide housing general obligation bond to fund existing affordable housing and first time homebuyer programs as well as homeownership opportunities for veterans. This bill was signed by the Governor and requires voter approval on the November 2018 ballot. If approved, SB 3 will provide funding to the Multifamily Housing, CalHome, Joe Serna, Jr. Farmworker Housing, Local Housing Trust Fund Matching Grant, Transit-Oriented Development, and Infill Infrastructure Financing Programs at HCD, as well as the CalHFA Home Purchase Assistance Program.

Despite the Legislature and Governor’s bold action in 2017, the bond funds are limited-term and SB 2 will likely only generate around $250 million per year, both of which far short of the $1.5-$1.7 lost annually.

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. [↑](#footnote-ref-1)