

BACKGROUND ON FINANCING PROGRAMS FOR AFFORDABLE HOUSING

STATE RESOURCES

Introduction

Developing housing that is affordable to very low- and low-income families¹ requires some amount of public investment. The high cost of land and construction, as well as regulatory barriers, 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), the average cost to construct a new affordable rental home is \$332,000. Although many mistakenly assume the state must pay the entire cost, CHPC's analysis of 15 years of data from the California Department of Housing and Community Development (HCD) indicates 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 serves, by conservative estimates, 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.

Funding at a Glance

Over the last several years, California has made significant investments in low- and moderate-income housing². This list contains the primary sources, which are described in more detail throughout this document.

- Low Income Housing Tax Credits (LIHTC), administered by the California Tax Credit Allocation Committee;
- Greenhouse Gas Reduction Fund monies allocated to the Affordable Housing and Sustainable Communities Strategies Program (AHSC), administered by the Strategic Growth Council;
- The Veterans Housing and Homeless Prevention (VHHP) Bond Act of 2014, allocated to programs administered by HCD in coordination with the California Housing Finance Agency (CalHFA) and California Veterans Department (CalVet);

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

² Moderate-income households are those members earning 80-120% AMI.

- Revenues generated through the Building Homes and Jobs Act³ (SB 2, Atkins, Chapter 364, Statutes of 2017), allocated through HCD and CalHFA;
- The Veterans and Affordable Housing Bond Act of 2018⁴ (Proposition 1), allocated to a program administered by HCD and CalHFA;
- The No Place Like Home Program (established by Proposition 2, 2018), administered by HCD;
- Budget appropriations to the Homeless Emergency Aid Program (HEAP) and the Homeless Housing, Assistance, and Prevention Program (HHAPP), administered by the Homeless Financing and Coordinating Council (HCFC);

It should be noted that of these investments, only funds from the Affordable Housing and Sustainable Communities program (AHSC), LIHTCs, and funds from SB 2 (Atkins, chapter 364, Statutes of 2017), are ongoing sources of funding.

Six state agencies administer most of the state’s programs that finance 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 (HCD)

HCD administers a variety of programs to meet a large range of housing needs, including emergency shelters, 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 (CDBG) Program, for smaller jurisdictions that do not receive these funds directly from the federal government. In 2018, voters approved Proposition 1, which dedicates \$4 billion in general obligation bonds for housing, including \$1 billion to the Cal-Vet Farm and Home Loan Program and \$3 billion to housing programs for low- and moderate-income persons. In the same year, voters also approved Proposition 2, which dedicates \$2 billion in bond proceeds from the Mental Health Services Act (MHSA). MHSA was approved by voters in 2004 through the passage of Proposition 63 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 homelessness⁵.

³ SB 2 established a permanent source of funding for the construction of housing affordable to lower- and moderate-income households, as well as for homebuyer assistance, support for local planning documents, and housing for the homeless. In year 1, 50% of funds went to address homelessness through the California Emergency Solutions and Housing Program at HCD, and 50% went to planning grants issued by HCD. In year 2 and beyond, 70% are allocated by formula directly to local jurisdictions, 15% are administered to CalHFA for the Mixed-Income Program (MIP), 10% fund farmworker housing, and 5% fund incentives to locals for permitting new housing.

⁴ Proposition 1 of 2018 allocated \$1 billion to the Cal-Vet Farm and Home Loan Program at CalVet; \$1.5 billion to the Multifamily Housing Program under HCD, \$150 million to the Transit-Oriented Development program (TOD) under HCD, \$300 million to the Infill Infrastructure Grant program under HCD, \$300 to the Joe Serna, Jr. Farmworker Housing Grant program under HCD, \$300 million to the Local Housing Trust Fund Matching Grant program under HCD, \$300 million to the CalHome Program at HCD, and \$150 million to the Home Purchase Assistance Program under CalHFA.

⁵ Proposition 63 imposes a 1% income tax on personal income in excess of \$1 million. Much of the funding has been provided to county mental health programs to fund programs consistent with their local plans.

HCD's major programs include:

- *Project Homekey*, which provides grants to counties, cities, and other government entities to purchase and rehabilitate housing including hotels, motels, vacant apartment buildings, and other types of innovative housing, and convert them into permanent, long-term housing for people experiencing or at risk of experiencing homelessness. The program received \$550 million from federal Coronavirus Aid Relief Funds, with an additional \$50 million from the general fund.
- *Project Roomkey*, which provides state and local governments up to 75% cost-share reimbursement from FEMA for hotel and motel rooms, including wraparound supports such as meals, security, and custodial services to protect people experiencing homelessness from COVID-19. California provided dedicated support teams to counties, including assistance in identifying hotels, negotiating and executing operating agreements, and providing the local providers technical assistance in keeping the records necessary to receive federal reimbursement. The program is also funded by \$150 million in emergency homeless aid made available to combat COVID-19.
- *The Multifamily Housing Program (MHP)*, which finances affordable rental housing. This program received \$1.5 billion from Proposition 1 bond funds.
- *No Place Like Home*, authorized through Proposition 2, 2018, dedicates up to \$2 billion in bond proceeds to invest in the development of permanent supportive housing for persons who are in need of mental health services and are experiencing homelessness, chronic homelessness, or who are at risk of chronic homelessness. The bonds are repaid by funding from the Mental Health Services Act (MHSA).
- *The Infill Infrastructure Grant Program*, which funds capital improvement projects to develop housing projects in infill areas. This program received \$300 million from Proposition 1 bond funds and \$500 million from the 2019-2020 budget.
- *The Local Government Planning Supports Grants Program*, established by the 2019-2020 budget, which provides grants to local governments to support planning that increases and accelerates housing production.
- *The Joe Serna Jr. Farmworker Housing Grant Program*, which funds housing for farmworker families. This program received \$300 million from Proposition 1 bond funds.
- *The CalHome Program*, which funds activities to help low-income families become or remain homeowners. This program received \$300 million from Proposition 1 bond funds.
- *California Emergency Solutions and Housing (CESH)*, provides grant funds to assist persons experiencing or at-risk of homelessness. This program receives funds from the Building Homes and Jobs Act Trust Fund (SB 2, Chapter 364, Statutes of 2017).
- *VHHP Program* (Proposition 41, 2014), in collaboration with CalHFA and California Department of Veterans Affairs, which finances affordable multifamily rental, supportive, and transitional housing for veterans and their families.

For a more complete listing of HCD's currently funded programs, see <http://hcd.ca.gov/grants-funding/active-funding/index.shtml>

California Housing Finance Agency (CalHFA)

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. CalHFA received \$150 million for home purchase assistance from Proposition 1 (2018) bond funds to provide first and junior loan options for low- to moderate-income families, including low to zero interest rate down payment assistance loans.

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 MHSA 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 receives 15% of the funds generated by SB 2 (Atkins, Chapter 364, Statutes of 2017) for the Mixed Income Program (MIP) for the purposes of creating mixed-income, multifamily residential housing for lower- or moderate-income households. The 2019-2020 Budget provided an additional one-time \$500 million investment into the MIP program. CalHFA also received \$150 million for Home Purchase Assistance from Proposition 1 bond funds to provide first and junior loan options for low- to moderate-income families, including low to zero interest rate down payment assistance loans.

For more information about CalHFA and its programs, see <http://www.calhfa.ca.gov/>.

Homeless Financing and Coordinating Council (HCFC)

HCFC, housed within the state Business, Consumer Services and Housing Agency, was created in 2017 to oversee the implementation of "Housing First" policies, guidelines, and regulations to reduce the prevalence and duration of homelessness in California. Housing First is an approach to quickly and successfully connect individuals and families experiencing homelessness to permanent housing without preconditions and barriers to entry, such as sobriety, treatment, or service participation requirements. The Council's mission is to develop policies, identify resources, benefits, and services to prevent and work toward ending homelessness in California. By July 1, 2019, agencies and departments administering State programs in existence prior to July 1, 2017, were required to collaborate with the HCFC to revise or adopt guidelines and regulations that incorporate the core components of Housing First.

In 2018, HEAP was established through the budget to provide localities with flexible block grant funds to address their immediate homelessness challenges. The 2018-2019 budget allocated \$500 million in one-time funding to enable local governments to respond to homelessness. In

2019, the budget created the HHAPP and invested \$650 million in one-time funds to build upon HEAP by funding rapid rehousing, permanent supportive housing, job programs, shelter and navigation construction, upon a demonstration of demonstrated need, and innovative projects. An additional \$300 was allocated to HHAPP in the 2020-2021 budget.

For more information, please see [https://bcsh.ca.gov/hcfc/aid_program.html]

Tax Credit Allocation Committee (TCAC)

Both state and federal laws allow for tax credits to be awarded each year to the developers of affordable rental housing. 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 most 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. The 2019-2020 budget expanded the state tax credits by \$500 million for 2019-2020 and 2020-2021.

For more information, please see <http://www.treasurer.ca.gov/ctcac/>.

Debt Limit Allocation Committee (CDLAC)

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. 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.

For more information, please see <http://www.treasurer.ca.gov/cdlac/>.

Strategic Growth Council (SGC)

In 2014, the Legislature committed ongoing funding derived from the California Air Resources Board's Cap-and-Trade Program to the SGC to administer the Affordable Housing and Sustainable Communities Program. This program funds 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, SGC cannot always predict the amount of for the next round of applications from the Greenhouse Gas Reduction Fund. To date, SGC has awarded \$701 million.

For more information, please see <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. Larger urban areas, called entitlement areas, receive funding directly from the federal government⁶. Smaller, more rural areas, known as non-entitlement areas, are awarded funds through HCD.

- *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 2019, California entitlement jurisdictions received \$130.6 million and HCD received \$43.4 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 2019, California entitlement jurisdictions received \$21.2 million and HCD received \$12.2 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 2019, California entitlement jurisdictions received \$359.2 million and HCD received \$32 million for non-entitlement jurisdictions. Community Development Block Grant Disaster Recovery (CDBG-DR) grants may be awarded to state and local governments when the president declares a major disaster for expenses related to “disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization.”
- *National Housing Trust Fund (NHTF)* - a newer affordable housing production program that complements 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. NHTF 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 2019, California received \$3.7 million.

⁶ Entitlement jurisdictions are cities and counties with more than 50,000 residents.

LOCAL RESOURCES

In addition to these state programs, local governments may have additional resources to support affordable housing. As noted above, some localities receive funds directly from the federal government. 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 that remains available for affordable housing purposes. Several jurisdictions in recent elections have passed voter-approved initiatives to expend bonds or impose fees or taxes to raise money for affordable housing construction.

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 main 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. Several subsequent bills have been enacted to fund specific purposes within CRIA and EIFDs.

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.