



AB 3160 (Gabriel) to increase affordable housing production by committing \$500 million to the enhanced state low-income housing tax credit for five years

The Problem: Not only is California failing to meet its affordable housing need, but it is also leaving billions in federal low-income housing tax credits (Housing Credits) on the table. The root cause for both is the lack of state subsidy for affordable housing development. Without state resources to fill financing gaps, a developer cannot use the federal Housing Credits or proceed to construction.

California created a small state Housing Credit in 1986 that today provides roughly \$120 million per year in assistance. These original state credits primarily support 9% federal Housing Credit developments. Starting in 2019, the state authorized an additional \$500 million in “enhanced” state credits with the primary goal of filling the larger financing gaps associated with 4% federal Housing Credit developments and pulling down those available federal resources. The credits are “enhanced” because they have a higher credit rate, providing more assistance to each development than the original state credits do. Unlike most tax credits that are permanent or even the film tax credits that is locked in for five years, the additional \$500 million in enhanced state credits is subject to budget approval every year, creating troubling uncertainty and risk. Because it takes years to bring an affordable housing development to fruition, developers need certainty that funding will remain available.

Over their first four years, the enhanced state Housing Credits have made possible an additional 25,000 homes affordable to low-, very low-, and extremely low-income households. Moreover, these enhanced state credits allowed California to draw down an additional \$5.3 billion in federal 4% Housing Credits and are leveraged overall with other federal, local, and private funds at a ratio of more than five to one. Since their inception, demand for the enhanced state credits has been oversubscribed at least two to one, and as high as three to one.

The Solution: AB 3160 commits California to \$500 million in annual enhanced state Housing Credits for five years. Based on past results, the California Housing Partnership projects that these resources each year will create 6253 additional affordable homes and draw down \$1.3 billion in available federal Housing Credits, a massive impact and great return on investment. Moreover, whereas developers plan new developments years in advance, a five-year enhanced state Housing Credit will create the predictability that is so vital to the affordable housing development community.