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

FACT SHEET FOR AB 1288 (Quirk Silva) TO INCREASE THE EFFECTIVENESS OF THE STATE LOW-INCOME HOUSING TAX CREDITS

Summary: AB 1288 maximizes the number of new affordable homes that can be produced with state Low-Income Housing Tax Credits by allowing the Tax Credit Allocation Committee to leverage these credits with either 9% or 4% federal Low-Income Housing Tax Credits, as conditions best dictate.

Background and Problem: Almost all new affordable rental housing is financed with federal Low-Income Housing Tax Credits (LIHTC). Federal credits come in two forms, known as 9% and 4% credits. The 9% credits are limited and allocated by the Tax Credit Allocation Committee (TCAC). A developer is eligible for the 4% credits if s/he finances at least 50% of the development's cost with tax-exempt bonds. While the 4% credits themselves are unlimited, the tax-exempt bonds are limited and allocated by the California Debt Limit Allocation Committee (CDLAC).

In order to increase production of affordable homes, the State of California augments these federal credits with $100 million in state credits annually and an additional $500 million for the last two years and proposed in the 2021/22 budget.

When first approved in 2019, the Legislature paired the $500 million in additional state credits with tax-exempt bonds and 4% federal tax credits because these resources were undersubscribed at the time. The intent was to utilize federal resources that California was leaving on the table. Since then, the tax-exempt bonds and 4% credits have become highly oversubscribed and will remain so for the foreseeable future. Given the state's inability to increase the federal limit on tax-exempt bonds, this linkage now results in greater unmet bond demand and uncertainty for all bond applicants. Each state credit development receiving a bond allocation simply displaces another applicant seeking bonds. While the 9% tax credit program is also oversubscribed, adding additional resources expands the program because there is no constraining factor.

Solution: In this environment, the state can maximize the production of affordable homes by redirecting new state credits to the 9% tax credit program in years when tax-exempt bonds are oversubscribed. AB 1288 grants TCAC the authority to do so. Each January, the TCAC members would determine how best to allocate that year's additional $500 million in state credits, except for credits set aside for the California Housing Finance Agency's Mixed Income Program, across the 9% and 4% federal credit programs.

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