ASSEMBLYWOMAN QUIRK-SILVA, 67TH DISTRICT

AB 346 (QUIRK-SILVA): TO INCREASE THE EFFICIENCY OF STATE LOW-INCOME HOUSE TAX CREDITS

SUMMARY

AB 346 increases the efficiency of the state Low-Income Housing Tax Credit in a number of ways:

1) It maximizes the number of new affordable homes that can be produced by allowing the Tax Credit Allocation Committee (TCAC) to leverage these credits with either 9% or 4% federal Low-Income Housing Tax Credits, as conditions best dictate.

2) It clarifies that investors who buy the credits can begin claiming them in the year the development is occupied, increasing the price investors will pay for the credits and thereby reducing the amount of credits each development needs. This is consistent with another provision of state tax credit law and the rules for federal tax credits.

3) It grants TCAC the authority to set deadlines for construction starts to account for market conditions and disasters.

4) It facilitates alignment by subjecting the California Debt Limit Allocation Committee, whose resources must be used in conjunction with TCAC's, to TCAC's standards for adopting and amending program regulations.

BACKGROUND

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 from TCAC if they finance 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 four years and proposed in the 2023/24 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 are likely to 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 and the number of developments that receive an award because there is no constraining factor.

SOLUTION

In years when tax-exempt bonds are oversubscribed, or in the unlikely event that state credits remain available at the end of a year, AB 346 grants TCAC the authority to move the additional $500 million in state credits to the unconstrained 9% federal tax credit program, allowing California to increase the overall production of new affordable homes.

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.

SUPPORT

California Housing Partnership (Sponsor)

CONTACT INFORMATION

Christopher Aguilera
Legislative Aide
916-319-2067
Christopher.Aguilera@asm.ca.gov