NOVEMBER 2024

California Housing Partnership

How Are California's Funding Programs Progressing on Affirmatively Furthering Fair Housing?

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EXECUTIVE SUMMARY

Between 2019 and 2021, the State of California adopted new policies to encourage production of family-serving affordable housing in "high-opportunity" neighborhoods with characteristics linked to upward mobility, college attendance, and other positive long-term outcomes for children. Historically, only a small share of family-serving affordable housing had been developed in these neighborhoods.

These changes to the State's affordable housing funding programs were an attempt to improve access to opportunity for families with children and address the persistent problem of residential segregation in California. Mounting evidence has shown how residential segregation reproduces racial and economic inequality by creating separate and sharply unequal neighborhoods. Further, state and federal affirmatively furthering fair housing (AFFH) mandates require all public agencies to administer housing and community development programs in a way that both reverses patterns of segregation (e.g., by expanding housing choices and promoting integrated neighborhoods) and transforms racially concentrated areas of poverty into places of opportunity. This dual strategy is often called the "both/and" approach to advancing AFFH objectives.

In this report, we document the degree of change in the location of family-serving affordable housing following the State's adoption of "opportunity area incentives" in its funding programs. We find the following:

- The State has not yet made available the resources necessary for comprehensive, multi-sector investments in lower resource communities of color across programs and agencies or articulated a plan for doing so.
- The State has made meaningful if modest progress in the goal of increasing production of family-serving affordable housing in higher "resource" neighborhoods while lower resource communities continue to receive awards in proportion to their share of neighborhoods.
- However, progress has been uneven across funding programs and geographies, suggesting the need for refinements in the State's approach.

The analysis in this report provides evidence to support the following policy recommendations to strengthen the State's approach to advancing AFFH objectives:

1. **Plan and fund comprehensive revitalization in conjunction with awards of affordable housing funding.** The State should create a new program to support creation and implementation of comprehensive community development initiatives and direct the allocation of resources across agencies and departments so that awards from the new program can be at a large enough scale to achieve

their purpose. Awards from the new program could be made in conjunction with affordable housing awards.

2. **Refine opportunity area incentives.** To build on the progress it has made increasing family-serving affordable housing in higher resource neighborhoods, the State should consider strengthening the 9% Housing Credit incentives and exploring scoring and tie-breaker mechanisms to incentivize change in regions where it is lagging.

3. **Ensure broad access to affordable housing in high resource areas.** The State should take measures to ensure developments in higher resource areas are accessible to families across regions to ensure this housing is having the intended integrative effect. Solutions could include expanded use of online search and application systems; an assessment of the impact of live/work preference policies in higher resource jurisdictions; instituting a statewide occupancy preference for residents of high-poverty neighborhoods; and providing housing search assistance to families seeking affordable housing.

PROGRESS TOWARDS REALIZING THE "BOTH/AND" APPROACH TO AFFH

Between 2019 and 2021, major State-administered affordable housing funding programs adopted incentives for applicants to locate Housing Credit-financed family-serving affordable housing in census tracts or rural block groups identified as High Resource and Highest Resource in the Opportunity Map published by the California Tax Credit Allocation Committee (TCAC) and the California Department of Housing and Community Development (HCD).[1,2] The TCAC regulations establish the competitive scoring system for 9% Housing Credits, the Debt Limit Allocation Committee (CDLAC) regulations establish the competitive scoring system for tax-exempt bonds (which are needed to access 4% Housing Credits), and the guidelines for the competitive Multifamily Housing Program (MHP), a major source of gap financing, reference both.[3] The competitive architecture of each of these funding sources varies, as do the details and relative strength of their respective opportunity area incentives. TCAC's incentives were introduced in 2019; CDLAC's incentives were introduced in 2021 and later amended;[4] and HCD's incentives for the MHP program were introduced in 2022

An earlier-stage assessment of the State's approach to advancing AFFH objectives with affordable housing investments published by the California Housing Partnership[5] (the Partnership) in 2021 argued that the State should complement its efforts to increase access to high-opportunity neighborhoods by funding comprehensive, multi-sector community development initiatives in lower resourced communities to better fulfill the requirements of both state and federal laws.[6] Three years later, we find that the State has taken a few initial steps in this direction, including:

- In October 2023, HCD published a new Neighborhood Change Map to identify areas that have undergone substantial racial and economic demographic changes, where intervention (e.g., affordable housing investment) could help advance AFFH objectives.[7]
- In its regulatory changes introduced in October 2024, CDLAC included new incentives for afford-

able housing developments in areas identified in the Neighborhood Change Map and updated its definition of concerted community revitalization.

- HCD incorporated AFFH considerations into its oversight of the most recent cycle of Regional Housing Needs Allocations (RHNA) and Housing Element (HE) updates, providing the potential for longer-term housing development patterns which could advance AFFH objectives.[8,9]
- Other recently enacted land use entitlement streamlining laws (e.g. SB 423, AB 2011, and SB 4)[10,11,12] aimed at making it easier to build multifamily affordable as well as market rate housing may lessen supply constraints, which research has shown contribute to segregation.[13]

However, the State has not yet undertaken the more challenging steps of marshaling and coordinating the resources necessary to implement comprehensive, multi-sector investments in lower resource communities of color across programs and agencies (e.g., education, youth services, transportation, economic development, public safety, pollution mitigation). Furthermore, while changes to land use and streamlining laws have promise to help in the future, they will take many years to meaningfully alter the landscape of housing opportunities for those protected under fair housing law.

CHANGES IN SITING PATTERNS FOR STATE-FUNDED AFFORDABLE HOUSING

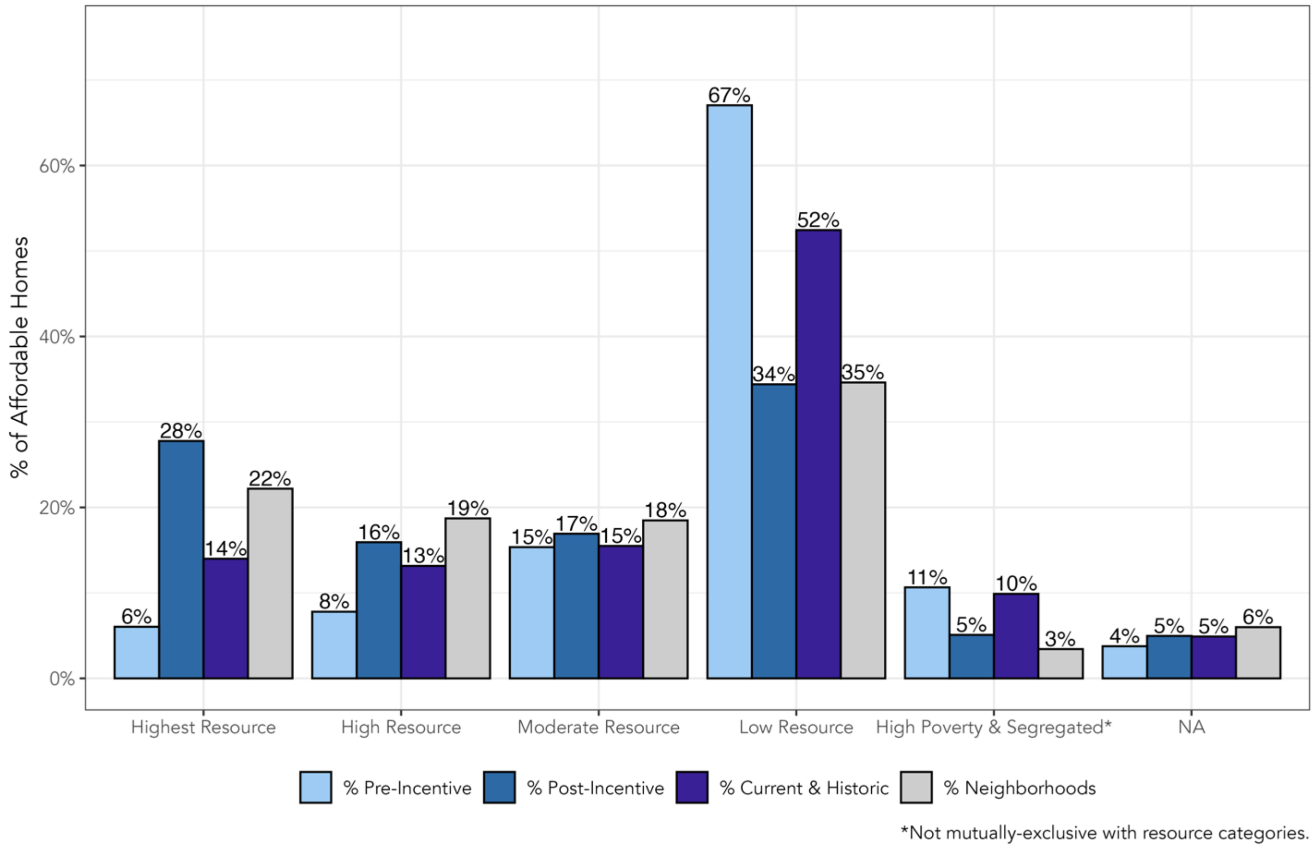
Prior analyses have found that since their introduction in 2019, the State's opportunity area incentives have achieved several positive changes. These changes include modest increases in family-serving developments in higher resource neighborhoods in the initial years after introduction of 9% program incentives; increased access to more diverse schools with higher test scores and other markers of quality and achievement; and achieving these changes without contributing to patterns of exurban sprawl counter to environmental goals.[14,15,16] We also find that families in affordable housing in higher resource areas in California benefit from substantially larger monthly rent savings relative to surrounding area rents than those in lower resource areas.[17] However, no prior studies have documented the full extent of changes in siting patterns for State-funded affordable housing for families at different geographic scales and across Housing Credit types since the introduction of opportunity area incentives. A summary of results from analysis is presented below, with more detailed results available in the technical appendix.[18]

Statewide results: The statewide distribution of affordable homes in family-serving affordable housing developments financed with Housing Credits according to neighborhood typologies in the 2024 TCAC/HCD Opportunity Map are shown in Figure 1, including for the years pre- and post-adoption of opportunity area incentives, as well as cumulatively.[19] The results show that the State has made meaningful progress in increasing development of family-serving affordable housing in higher resource areas while continuing to invest in a broad set of neighborhoods.

Between the pre- and post-incentive periods, the share of family-serving affordable homes in Highest Resource areas markedly increased from 6% to 28% and grew in High Resource areas from 8% to

16%. Meanwhile, the share of homes decreased substantially in Low Resource areas from 67% to 34% and High-Poverty & Segregated areas from 11% to 5%, with little change in Moderate Resource areas from 15% to 17%. Despite these shifts, Low Resource areas have still seen more awarded homes in large-family developments than any other category in the post-incentive period, and at a rate that is roughly aligned with its share of neighborhoods.

FIGURE 1: **Housing Credits Siting Pre- and Post-Incentive by Resource Area (Large Family, New Construction)**

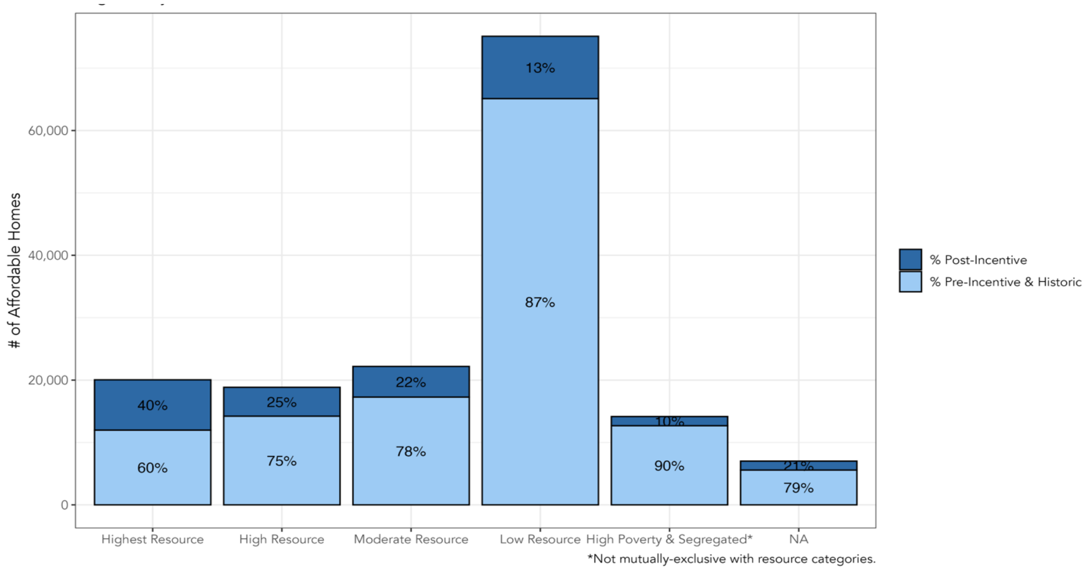


Note: The 4% pre-incentive period is 2015-2018 and the 9% pre-incentive period is 2017-2020, the post-incentive period includes awards through 2023, and historic data includes awards dating back to 1987.

Sources: California Housing Partnership Preservation Database, May 2024; and 2024 TCAC/HCD Opportunity Map.

Figure 2 shows the time periods – pre-incentive and post-incentive – when affordable homes in family-serving developments have been added to neighborhoods in each category of the TCAC/HCD Opportunity Map. Homes added to Highest Resource areas post-incentive represent 40 percent of all of homes in these areas, showing the substantial degree of change in these areas during a relatively short time period after introduction of incentives. Since Low Resource areas have nearly four times as many homes as any other map category, the homes added to these areas post-incentive – which, again, are more than any other category experienced during this time – represent only 13 percent of all homes in these areas.

FIGURE 2: Current and Historic Housing Credit Distribution (Large Family, New Construction)



Note: The 4% pre-incentive period is 2015-2018 and the 9% pre-incentive period is 2017-2020, the post-incentive period includes awards through 2023, and historic data includes awards dating back to 1987.
Sources: California Housing Partnership Preservation Database, May 2024; and 2024 TCAC/HCD Opportunity Map.

The State has not established a long-term goal for the share of family-serving affordable homes it wishes to see developed in higher resource areas. However, if the goal were to achieve proportional distribution where the share of homes matches the share of neighborhoods in the TCAC/HCD Opportunity Map, a higher share would need to be developed in High and Highest Resource areas over the coming decades than in the years since opportunity area incentives were introduced (46%). Figure 3 shows that it would take 65 years to achieve proportional distribution of these homes at the current rate of developing family-serving affordable homes in higher resource areas each year. Achieving proportional distribution would take 39 years if 50% of homes are developed in higher resource areas each year, and 20 years if this figure is 60%. Given the relatively slow progress in the 9% program, as discussed more below, it will take the 9% program more than twice as long as the 4% program to reach proportional distribution under each scenario.

FIGURE 3: Years to Achieve Proportional Distribution In Higher Resource Areas

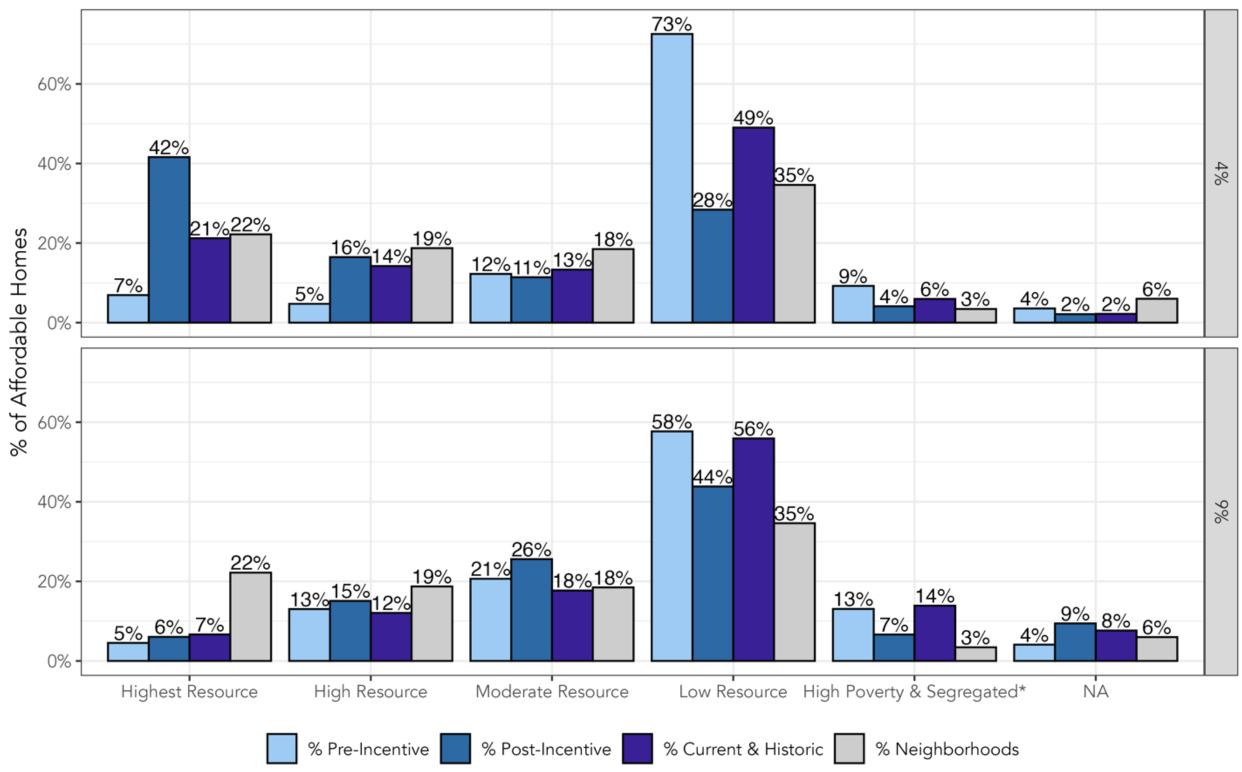
Annual Share of Homes in Large-Family Developments Awarded in High & Highest Resource Areas*	All Credit Types	9%	4%
46%	65	112	47
50%	39	67	28
60%	20	34	14

** Based on the annual average number of affordable homes in new construction large-family developments awarded 2020-2023.*
Sources: California Housing Partnership Preservation Database, May 2024; and 2024 TCAC/HCD Opportunity Map.

Results by Housing Credit type: A more nuanced pattern emerges when these results are broken down by credit type, as shown in Figure 4. Reflecting the stronger nature of the opportunity area incentives adopted by CDLAC, the 4% program accessed through tax-exempt bond allocations is responsible for the lion's share of the shift in the statewide distribution of family-serving affordable homes to Highest Resource and High Resource areas to the point where this program is close to achieving proportional distribution in these areas.

By contrast, the 9% program has seen very little change since the introduction of incentives in 2019, with only modest reductions in the Low Resource and High-Poverty & Segregated shares and the largest (though still modest) increase occurring in Moderate Resource areas. The share of homes financed with 9% Housing Credits in Highest Resource and High Resource areas has barely increased and remains disproportionately low relative to the share of neighborhoods in these categories.

FIGURE 4: Housing Credits Siting Pre- and Post-Incentive By Program (Large Family, New Construction)

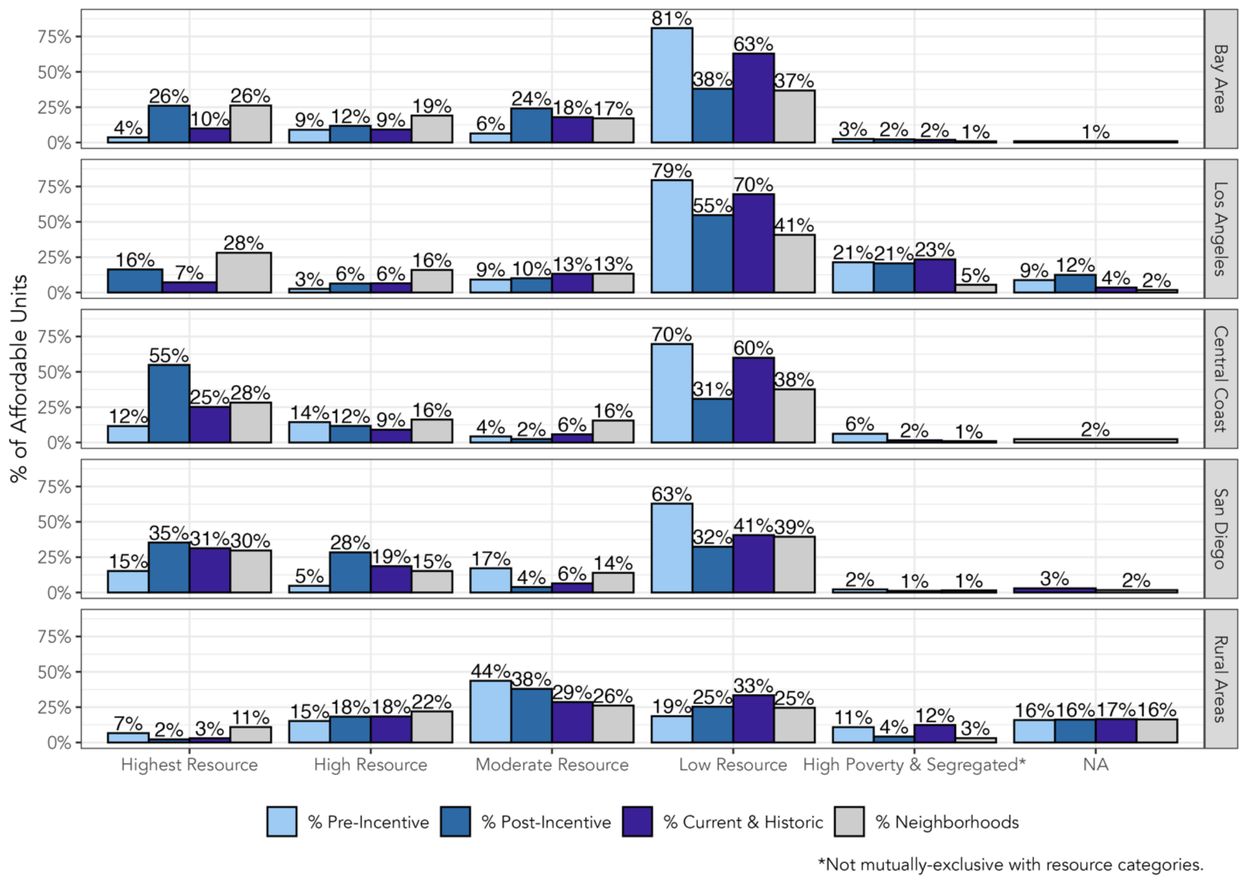


Note: The 4% pre-incentive period is 2015-2018 and the 9% pre-incentive period is 2017-2020, the post-incentive period includes awards through 2023, and historic data includes awards dating back to 1987.

Sources: California Housing Partnership Preservation Database, May 2024; and 2024 TCAC/HCD Opportunity Map.

Results by region: The degree of change in the distribution of developments receiving funding awards between pre- and post-incentive periods also varies widely by region. Regions such as in San Diego County and the Central Coast have made substantial progress in achieving proportional distribution in higher resource areas after the introduction of incentives, while others such as Los Angeles County and the Bay Area have not. Regional results are viewable in the technical appendix here and a sample of regions are included below in Figure 5.

FIGURE 5: Housing Credits Siting Pre- and Post-Incentive By Region (Large Family, New Construction)

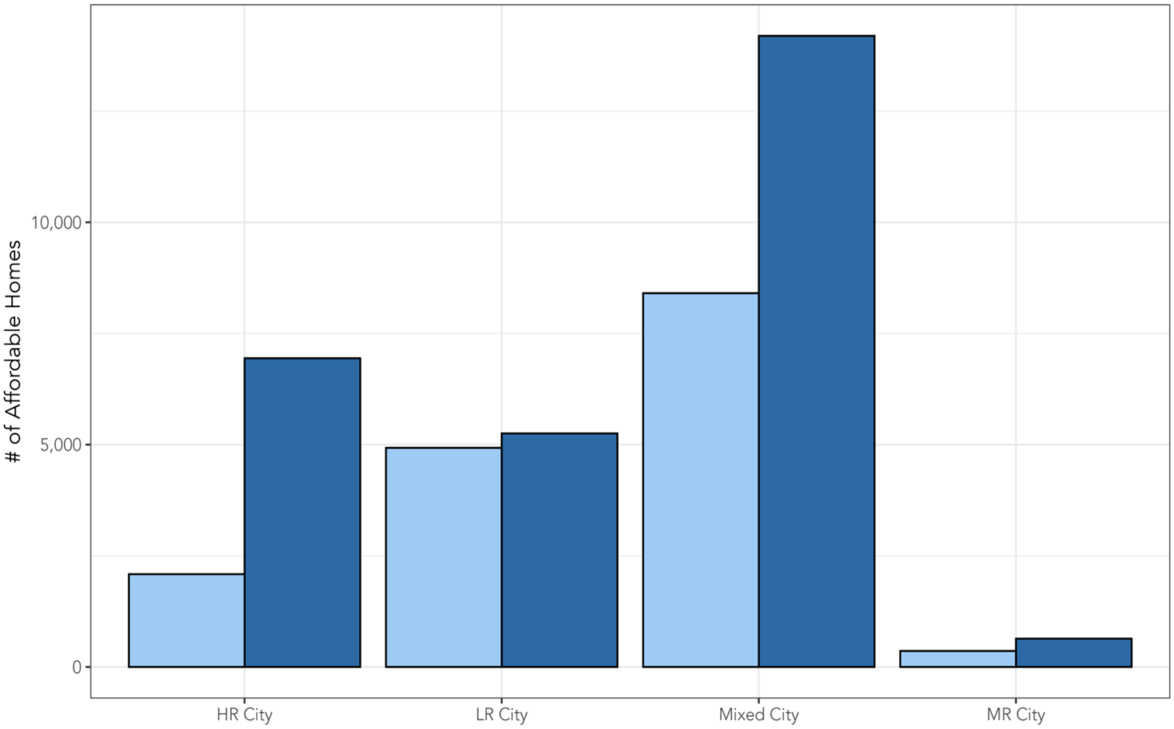


Note: The 4% pre-incentive period is 2015-2018 and the 9% pre-incentive period is 2017-2020, the post-incentive period includes awards through 2023, and historic data includes awards dating back to 1987.

Sources: California Housing Partnership Preservation Database, May 2024; and 2024 TCAC/HCD Opportunity Map.

Results by city type: Some advocates have also expressed concern that State opportunity area incentives have blocked not just lower resource neighborhoods but entire lower resource cities from the competition for State funding. However, a separate analysis reveals broadly similar trends at the city level. Figure 6 shows the distribution of affordable homes in large-family new construction developments in the pre- and post-incentive periods for four classifications of cities: low resource (LR), moderate resource (MR), high resource (HR), or mixed based on how their land area is categorized in the 2024 TCAC/HCD Opportunity Map.[20] HR and mixed cities saw the greatest increase in family-serving affordable homes in the post-incentive period, which is unsurprising given LR and MR cities by definition contain small shares of higher resource neighborhoods. However, there is little evidence of a "chilling effect" on development of family-serving affordable homes in LR cities after the introduction of opportunity area incentives, as developments in these cities have continued to see comparable numbers of homes funded during the post-incentive period as during the period before introduction of incentives; however, their share of overall awards is lower in the post-incentive period due to higher levels of overall production.[21]

FIGURE 6: Housing Credits Siting Pre- and Post-Incentive By City Type (Large Family, New Construction)



Note: The 4% pre-incentive period is 2015-2018 and the 9% pre-incentive period is 2017-2020, and the post-incentive period includes awards through 2023.
Sources: California Housing Partnership Preservation Database, May 2024; and 2024 TCAC/HCD Opportunity Map.

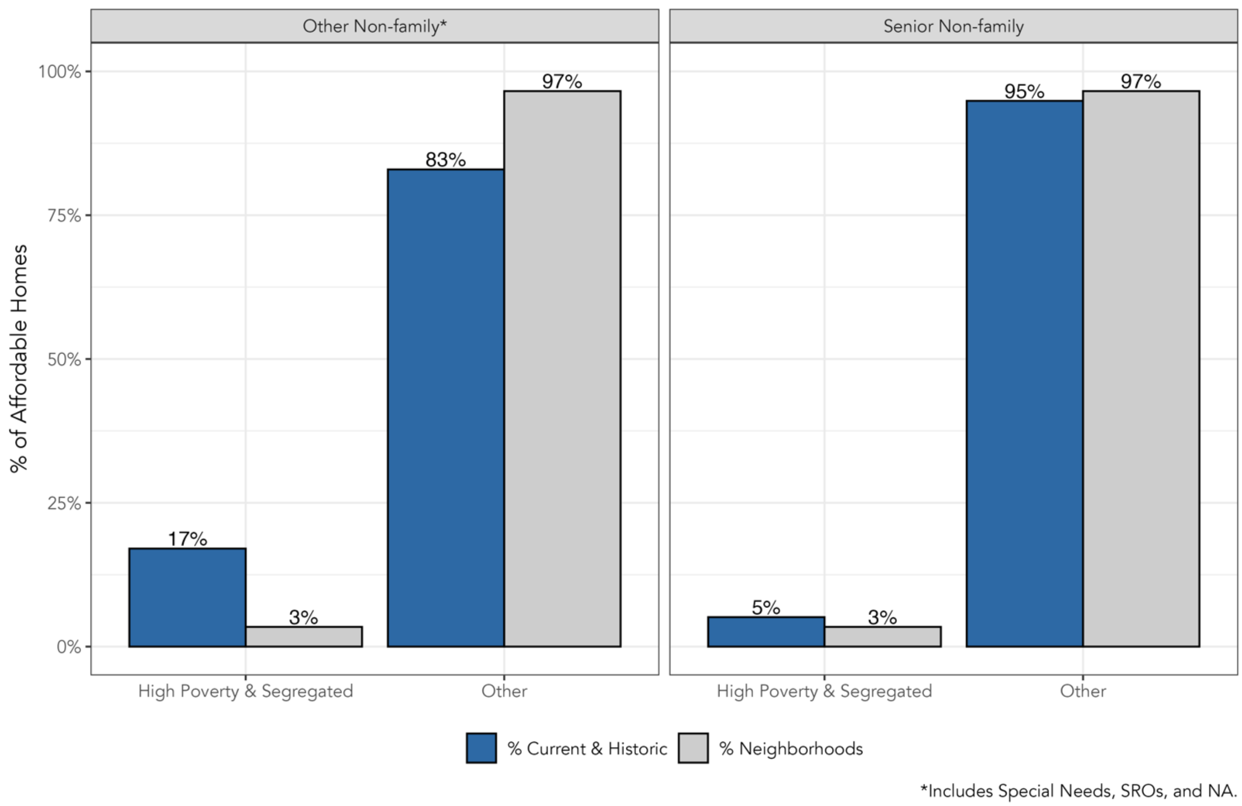
Special needs and senior populations: The State's approach for advancing AFFH objectives in the context of affordable housing investments has so far focused primarily on families with children and not as much on "non-family" adult populations such as seniors and individuals exiting homelessness. However, the duty to AFFH extends to all activities and programs related to housing and community development, and non-family populations may include many members of protected classes under state and federal fair housing law.[22],[23]

CDLAC is the only State housing funding agency that has adopted location-based incentives for non-family housing. Since 2021, the agency has incentivized special needs housing – for example, supportive housing for individuals exiting chronic homelessness – to be developed in Highest Resource and High Resource areas as defined in the TCAC/HCD Opportunity Map. In October 2024, the agency also introduced new incentives for affordable housing for any population to be developed in areas identified in the Neighborhood Change Map.
CDLAC deserves credit for seeking to advance AFFH objectives for special needs adult populations, but its use of the TCAC/HCD Opportunity Map to inform location-based incentives is concerning because this tool's methodology relates primarily to families with children and specifically includes school-based indicators that are not directly applicable to adults. A different mapping tool tailored to non-family populations is needed.

In the absence of such a tool, however, it is still possible to preliminarily assess affordable housing location patterns for non-family populations using metrics which may not relate to "opportunity" – a framework which typically applies families with children – but to other AFFH objectives, such as furthering integration, reducing segregation, and transforming high-poverty and racially segregated neighborhoods. For example, if supportive housing were concentrated in a way that contributed to segregation and did not offer residents a meaningful range of housing options outside areas of concentrated poverty, this pattern could raise fair housing concerns.[24]

One tool for assessing geographic patterns related to AFFH objectives is the State's High-Poverty & Segregated mapping layer, which is provided alongside the TCAC/HCD Opportunity Map but operates as a distinct assessment unrelated to opportunity. Figure 7 shows that Housing Credit-financed housing serving non-family populations is disproportionately concentration in State-identified High-Poverty & Segregated areas. This imbalance appears to be particularly strong among special needs developments.

FIGURE 7: **Non-Family Housing Credits Siting Pre- and Post-Incentive**



Note: Current and historic data includes awards from 1987 through 2023.
Sources: California Housing Partnership Preservation Database, May 2024; and 2024 TCAC/HCD Opportunity Map.

Additional analysis, tools, and policies may be needed to further investigate these patterns and advance AFFH objectives in the context of non-family populations, whose location-based considerations (e.g., related to services) may be different than those of families with children.[25]

RECOMMENDATIONS

The analysis in this report provides evidence to support several recommendations, presented below, to strengthen the State's approach to advancing AFFH objectives.

1. **Realize the promise of the "both/and" approach of AFFH by creating and funding comprehensive revitalization in coordination with state-funded affordable housing developments.** Lack of support for comprehensive community development initiatives in lower resourced communities of color remains a critical gap in the State's AFFH strategy. To fill this gap, the State should take multiple related steps:
    a. Undertake a comprehensive examination of State policies and funding programs such as those related to education and schools, public safety, and economic development, and consider the question of place-based equity in light of patterns of residential segregation and unequal distribution of resources and opportunity. Then, mandate that every department adopt an equity lens into their funding programs that takes these disparities into account, such as by directing more resources to areas in greater need or by changing policies which may contribute to segregation.
    b. Create a program to support creation, funding and implementation of comprehensive community development initiatives. One approach could be to expand the scope of, and funding for, the Transformative Climate Communities program. Another option could be to create a soft loan or grant fund for this purpose at the California Infrastructure and Economic Development Bank that would support comprehensive community reinvestment in conjunction with affordable housing investments.

2. **Refine opportunity area incentives.** To build on the progress it has made increasing family-serving affordable housing in higher resource neighborhoods, the State should consider:
    a. Strengthening the 9% Housing Credit incentives and perhaps including a soft cap scoring incentive similar to the one adopted by CDLAC for allocating tax-exempt bonds.
    b. Exploring scoring and tie-breaker mechanisms to incentivize development of more family-serving development in higher resource areas in regions where it is lagging, like in the Bay Area and Los Angeles County.

3. **Ensure broad access to affordable housing in high resource areas.** The State should take measures to ensure developments in higher resource areas are accessible to families across regions to ensure this housing is having the intended integrative effect:
    a. Expand the use of online search and application systems like the Bay Area Housing Finance Agency's Doorway statewide.[26]
    b. Assess the impact of live/work preference policies in higher resource jurisdictions to ensure they do not inadvertently increase segregation.
    c. Institute State preferences for residents of high-poverty neighborhoods, consistent with the Roadmap Home proposal E.7.[27]
    d. Partner with local agencies to provide housing search assistance to low-income families, particularly those in high-poverty neighborhoods, who are seeking affordable housing.

DATA NOTES & SOURCES

1 *TCAC website: https://www.treasurer.ca.gov/ctcac/*

2 *CDLAC website: https://www.treasurer.ca.gov/cdlac/*

3 *MHP webpage: https://www.hcd.ca.gov/grants-and-funding/programs-active/multifamily-housing-program*

4 *CDLAC incorporated a "soft cap" on its incentives in 2022 to ensure they do not overwhelm the competition for tax-exempt bonds and that a path to funding for developments in non-high-opportunity areas remains open.*

5 *California Housing Partnership webpage: https://chpc.net/about-us/*

6 *Rinzler, D. and Loya, J. (2021). Policy Brief: Addressing Segregation and Unequal Access to Opportunity in California with Affordable Housing Investments: A Path Forward for a Comprehensive Approach. December.*

7 *Through 2023, there were 582 Housing Credit-financed properties (11% of all properties and 13% of non-rural properties) in tracts captured by the 2024 Neighborhood Change Map, containing 43,936 affordable homes (10% of the statewide total or 11% of non-rural homes). Approximately 6.4% of non-rural census tracts across the state are identified in the map.*

8 *HCD Regional Housing Needs Allocation webpage: https://www.hcd.ca.gov/planning-and-community-development/regional-housing-needs-allocation*

9 *HCD Housing Elements webpage: https://www.hcd.ca.gov/planning-and-community-development/housing-elements*

10 *Senate Bill 423: https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB423*

11 *Assembly Bill 2011: https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB2011*

12 *Senate Bill 4: https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB4*

13 *Lens, M. C., & Monkkonen, P. (2015). Do Strict Land Use Regulations Make Metropolitan Areas More Segregated by Income? Journal of the American Planning Association, 82(1), 6–21. https://doi.org/10.1080/01944363.2015.1111163*

14 *Givens, Y. & Rinzler, D. (2024). Have State opportunity area incentives changed the kinds of schools children living in affordable housing have access to? California Housing Partnership.*

15 *Gupta, A. & Rinzler, D. (2023). Are the State's opportunity area incentives for affordable housing placing equity and environmental goals in conflict? California Housing Partnership.*

16 *Owens, A., & Smith, R. B. (2023). Producing affordable housing in higher-opportunity neighborhoods: Incentives in California's LIHTC program. Journal of Urban Affairs, 1–29.*

17 *Full results of this analysis are available in the technical appendix link.*

18 *Technical appendix link.*

19 *CDLAC adopted opportunity area incentives in 2021 for the 4% Housing Credit program; the pre-incentive period in the analysis is 2017-2020 and the post-incentive period is 2021-2023. TCAC adopted incentives in 2019 for the 9% Housing Credit program; the pre-incentive period in this analysis is 2015-2018 and the post-incentive period is 2019-2023. The analysis uses the 2024 TCAC/HCD Opportunity Map and the California Housing Partnership's database of Housing Credit-financed developments.*

20 *"Cities" includes both incorporated cities and Census-Designated Places in unincorporated areas. On average, HR cities are over 90% High/Highest Resource, LR cities are over 90% Low Resource, and MR cities are over 90% Moderate Resource. Mixed cities include several of the largest cities in the state – including Los Angeles, San Jose, San Francisco, San Diego, Oakland, and Fresno – and comprise about 52% of the statewide population as of 2022 with 73,891 affordable homes. HR cities like Irvine, Fremont, and Santa Clarita include approximately 25% of the state's population with 22,957 affordable homes, while LR cities like Anaheim, Santa Ana, and Santa Rosa include approximately 21% of the state's population with 30,233 affordable homes and MR cities like Orcutt, Twentynine Palms, and Hercules include approximately 2% of the state's population with 2,543 affordable homes.*

21 *For more city-level analysis, see the technical appendix here link.*

22 *Protected characteristics under California fair housing law are listed here and protected classes under federal fair housing law are available here.*

23 *National Academies of Sciences, Engineering, and Medicine (2018). Permanent Supportive Housing: Evaluating the Evidence for Improving Health Outcomes Among People Experiencing Chronic Homelessness. Washington, DC: The National Academies Press. https://doi.org/10.17226/25133.*

24 *National Academies of Sciences, Engineering, and Medicine (2018). Permanent Supportive Housing: Evaluating the Evidence for Improving Health Outcomes Among People Experiencing Chronic Homelessness. Washington, DC: The National Academies Press. https://doi.org/10.17226/25133.*

25 *Evidence on neighborhood effects is more robust for childhood environments and the general adult population than it is for seniors or most special needs populations. However, some research suggests poverty rates and other measures related to socioeconomic status are correlated with important outcomes for these populations. The State should consult with academics, subject area experts, and providers of housing for these populations to help make sense of apparent gaps in the literature, as part of developing a more refined approach to advancing AFFH objectives for these populations.*

26 *Doorway Housing Portal: https://housingbayarea.mtc.ca.gov/*

27 *See solution E7 in Roadmap Home 2030: https://roadmaphome2030.org/wp-content/uploads/2023/05/Roadmap-Home-Report.pdf*