Funding Affordable Housing
When a developer or city puts together an affordable housing development, there are some fundamentally different funding issues than exist for market-rate housing. To begin with, the developer or city often starts with a goal of serving individuals or families with incomes significantly below the level needed to afford rents or sales prices in a market-rate development. Therefore, while an affordable housing development can usually support some private debt or even equity, it is not enough to get a project built.

Consequently, the public sector invests in affordable housing development to close the funding gap between what the housing costs and what an individual or family can afford. These subsidies are often distributed via a competitive process from a local or state housing agency. Below is an example of the distribution of financing for an affordable housing development:

![Pie chart showing the distribution of financing for an affordable housing development]

Local Sources of Funding
Local funding is often a crucial first step in putting together an affordable housing development. These funds are typically used for acquiring sites, beginning the design process, and funding some of the construction costs.

Many cities in California have redevelopment agencies which are required to spend at least 20% of their “tax-increment” funds on low- or moderate-income housing. Other local funding can come from jobs-housing linkage fees, local housing trust funds, or other unique local funding sources. In addition, many larger communities receive a limited amount of funding for affordable housing from the federal government, namely U.S. Department of Housing and Urban Development (HUD) grants and loans (see below).

State and Federal Competitive Funding
Federal and state financing sources include: Low Income Housing Tax Credits, tax-exempt bonds, various grant and loan programs from the Department of Housing and Urban Development (HUD) and/or the USDA in rural areas.
Partial List of Affordable Housing Funding

LIHTC: Low Income Housing Tax Credit -- Federal tax law allows private investors to reduce tax liability by investing in affordable rental housing. There are two levels of credit available: 9 percent and 4 percent. In California, there is a competitive process for accessing the 9 percent credits and applicants include both nonprofit and for-profit developers. The credits are then sold to private investors who form a legal partnership with the nonprofit for owning and operating the housing). Projects that also use tax-exempt bond financing are eligible for a 4 percent credit on a noncompetitive basis. www.treasurer.ca.gov

MHP: Multifamily Housing Program -- A State of California financing program that provides low-interest loans to affordable housing developments, usually leveraging federal, local and private sources. www.hcd.ca.gov

CDBG: Community Development Block Grant -- Its purpose is to encourage more broadly conceived community development projects and expand housing opportunities for low- and moderate-income persons.

HOME: Home Investment Partnership Program -- HUD funds provided to local governments and states for new construction, rehabilitation, acquisition of standard housing, assistance to homebuyers, and tenant-based rental assistance.

Section 202 and Section 811: These programs include housing for seniors (Section 202) and supportive housing for persons with disabilities (Section 811). Both programs offer capital grants for project development costs and operating subsidies. Tenants pay 30 percent of their income for rent.

Housing Choice vouchers (formerly known as “Section 8”): Rental subsidies that make up the difference between 30 percent of tenant’s rent and the “fair market rent.” Some vouchers are project-based and some are portable “tenant-based” vouchers.

HOPWA: Housing Opportunities for People with AIDS -- HOPWA provides grants for housing assistance and supportive services for people with AIDS.

SHP: Supportive Housing Program -- SHP provides Emergency Shelter and Continuum of Care grants for supportive housing programs for homeless people.

Tax-Exempt Bonds: Tax-exempt bonds are debt instruments issued by state and local governments for which the investors do not pay taxes, thus allowing for lower rates of return for the investor and lower interest rates on the debt. Federal law allows the tax exemption to encourage local governments’ access to capital markets. www.treasurer.ca.gov

AHP: Affordable Housing Program -- A program of the Federal Home Loan Banks to finance the purchase, construction and rehabilitation of owner-occupied housing for low- and moderate-income households. www.fhlbsf.com