

# **ASSEMBLY BILL 10 (CHIU)**

## **EXPANDING THE LOW INCOME HOUSING TAX CREDIT**

### **SUMMARY**

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This bill would increase California’s Low Income Housing Tax Credit (LIHTC) by \$500 million. The LIHTC is one of the state’s most effective tools for funding affordable housing, as every \$1 of state investment leverages \$3 or more of federal funding. As such, this bill would generate a new permanent source of over \$2 billion in funding for affordable housing annually. The result would be annual funding for 5,000 housing units affordable to low-income Californians, thereby creating a substantial dent in our current housing crisis.

### **BACKGROUND**

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The LIHTC program was enacted by Congress in 1986 is one of the only remaining sources of funding available for affordable housing. The LIHTC program provides the market with an incentive to invest in more affordable housing through federal tax credits. The California Tax Credit Allocation Committee was directed to award these credits to developers of qualified projects in the state. Developers sell these credits to investors to raise capital for their projects, reducing the debt that the developer would otherwise have to borrow. As a result, property owners are able to offer lower, more affordable pricing.

In response to the high cost of developing housing in California, in 1987 the Legislature authorized a state low-income housing tax credit program. Existing law limits the total amount of low-income housing tax credits the state may allocate at \$94 million per year. However, because of the popularity of the program, in California there are twice as many applicants for tax credits as credits for the California Tax Credit Allocation Committee to allocate.

In addition, there is an untapped federal low-income housing tax credit that the state can still access—the 4% Federal Tax Credit. These 4% federal credits are unlimited and remain unused by the state. This is largely due to the fact that the 4% credits require additional state resources to make the development viable – additional state LIHTC funds will allow the state to tap into these resources.

### **THE PROBLEM**

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Virtually no low-income Californians renters, who make up 38 percent of the state’s population, can afford their local housing costs. Nearly 70 percent of low-income and very-low income renter households spend more than 50 percent of their income on housing costs.

Given the high cost of building new housing, making housing affordable to the state’s low-income residents requires public subsidization. Current funding programs facilitate production of about 20%-30% of the annual demand. Some of the most important sources of affordable housing funding, such as bond revenue, are temporary. By increasing funding for an already highly successful program, this bill would provide an ongoing, sustainable funding source for affordable housing production.

### **THE SOLUTION**

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Increasing the state’s LIHTC annually by \$500 million, coupled with leveraging of readily-available federal tax credits could yield \$2 billion annually for affordable housing. This funding would facilitate the annual construction of 5,000 units affordable to low-income Californians. Raising the amount of available state credits is particularly effective at this time because recent decreases in the federal corporate tax rates have made the federal tax credits less valuable – and conversely, state credits more attractive to investors. This bill would further increase the appeal of state credits by eliminating the cap on the amount that individual investors can claim against loss in value. Finally, this bill would increase the annual set-aside for farmworker housing from \$500,000 to \$25 million, vastly increasing the efficacy of this program.

### **SUPPORT**

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California Housing Consortium (co-sponsor)  
California Housing Partnership (co-sponsor)  
Housing California (co-sponsor)  
Non-Profit Housing Association of Northern California (co-sponsor)

### **FOR MORE INFORMATION**

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