Appendix C: Housing and Community Development Production, Preservation, and Financial Assistance Programs

California provides affordable housing opportunities in two ways: indirectly through land use planning tools and policies (as described in Appendix B) and through direct financing using a variety of federal, State and local sources. Direct funding supports construction of new affordable housing or supportive housing (housing coupled with services to help people remain stably housed), as well as preservation of existing affordable housing. Direct funding can also provide financial assistance directly to renters and owners through a variety of federal, State and local sources.

Because public funding for affordable housing is limited and the need is substantial, public investments in housing must be carefully targeted. California and its voters have provided funding for affordable housing through voter-approved bond measures (nearly $5 billion over the last 15 years), State General Fund appropriations, and localities taxing themselves to raise funding for affordable housing. California has, however, lacked a State-level, ongoing, and sustainable non-General Fund revenue source for housing. The high cost of housing construction also impedes how far the State and local investments can go to provide sufficient affordable housing.

What Is "Affordable Housing"?

Affordable housing is generally considered housing that is affordable to, and reserved for, lower-income households for a period of time. While State affordable-housing production and preservation programs have different requirements, all have affordability provisions that require the development maintain affordable rents for a minimum time period, commonly 55 years for multifamily rental housing. These properties are sometimes referred to as regulated, "deed-restricted," "rent-restricted," or "subsidized" affordable homes to distinguish them from market-rate affordable housing that charges a rent affordable to lower-income households, but has no guaranteed affordability for future years. Market-rate affordable housing can result from various conditions. For example, location in a lower-demand area or neighborhood, or substandard living conditions can lower the cost of market-rate housing to an "affordable" rent. However, in these areas, new development is often limited because low rents prevent investors from recouping the costs of development.

Income Category Definitions

Above Moderate-Income: 121% Area Median Income and Above

Moderate-Income: 81-120% Area Median Income

Low-Income: 51-80% Area Median Income

Very Low-Income: 31-50% Area Median Income

Extremely Low-Income: 0-30% Area Median Income

Owners of deed-restricted, affordable, multifamily housing set rents based on the affordability agreements made with the various housing agencies that provided funding to the development. For example, the affordability agreement may require 90 percent of the units to serve low-income renters and 10 percent of the units to serve extremely low-income renters. The owner will house residents that meet the income limits associated with those requirements and set rent no greater than 30 percent of those income limits.

Collecting lower rents means these developments have lower operating income over time than similar market-rate properties. Consequently, the development must ensure that the combination of upfront initial funding investments and operating subsidies cover the maintenance and operations for the long term. For those developments that serve the lowest-income populations, those households that are most in need and least likely to be served by the market, the rents must be set extremely low. In these cases, more per unit investment is required for the developer to sufficiently manage the property, and all other development criteria held equal, the same amount of funding will cover fewer units.

Often affordable housing programs also require additional components that meet State policy goals beyond affordable housing, such as public health, supportive services that keep people stably housed, energy-efficiency requirements above existing code, and accessibility to jobs, transit, and services. These additional components expand the benefits of the development, but can add time and cost as well.

Affordable Housing and Community Development Programs Form a Complex Framework

Many federal, State, and local housing programs help finance the development of multi- and single-family homes affordable to low-income Californians. Other programs provide financial assistance directly to renters and homeowners, such as rental assistance from federal Housing Choice Vouchers or State first-time homebuyer down-payment assistance. Additionally, housing programs often target specific “vulnerable” or “special needs” populations. These can include veterans, seniors, persons experiencing homelessness, persons with disabilities, or farmworkers.

Due to the high costs of development, funding constraints, and competitive program criteria that encourage developers to leverage other funds, rarely does any single housing program provide sufficient resources to fund a complete development. Therefore, developers must apply for, and receive, funding from multiple programs and address each program’s overlapping policy goals along the way. One multifamily development can easily need five to ten funding sources to finance construction and will usually have a combination of financing from State and federal tax credits, State housing programs, local land donation or other local grants, federal housing programs, and private loans from financial institutions. Any decline or loss of housing funding sources further exacerbates this issue.

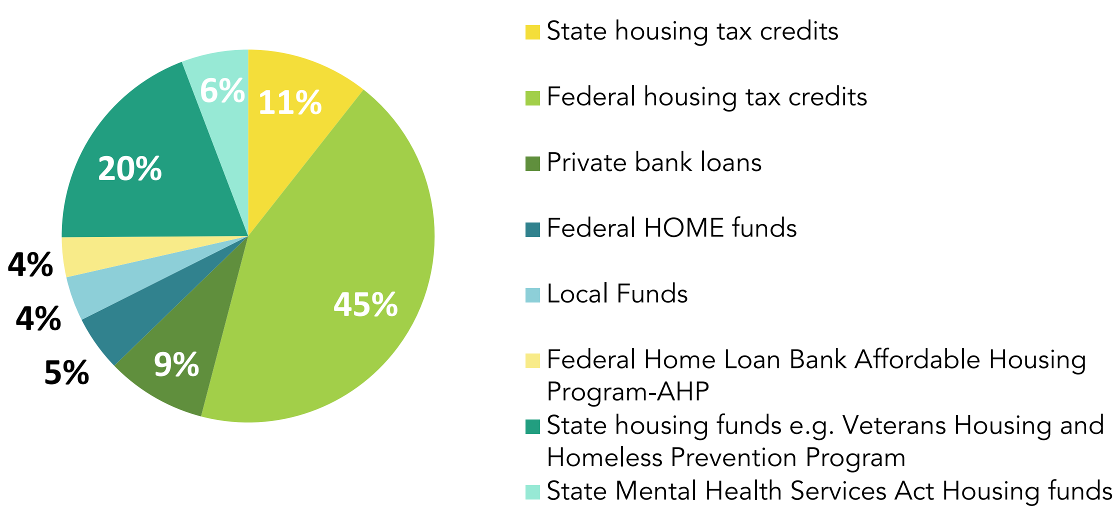
Applying for, and securing, many layers of funding can add substantially to the time it takes to start production. It also increases the difficulty associated with meeting each program's various requirements. The State's 2014 Affordable Housing Cost Study found that accessing funding from multiple programs did not have a statistically significant impact on cost; however, construction delays and operational costs associated with securing multiple sources of funding were not included in this analysis. If measured, delays and additional operational costs could account for substantial cost increases. Scarce resources for housing bring even more attention to the need to control costs, and the effect of layering multiple awards, among other issues that could impact costs is being examined by the State's housing agencies.

The Veterans Housing and Homelessness Prevention program, the Affordable Housing Sustainable Communities program, and the No Place Like Home program (described later in this appendix) demonstrate a trend that housing programs are increasingly viewed as a platform to achieve multiple policy goals. Increased collaborations across sectors improves housing programs through knowledge sharing and leveraging of resources, but may add complexity to an already complex funding model, as those seeking to obtain funding from a variety of programs must ensure their development meets each and every program's various requirements.

Figure C.1 shows examples of a typical mix of funding sources for affordable housing development, and demonstrates the variety of layering that can be needed to bring an affordable multifamily development to fruition.

Figure C.1

Sample Funding Mixes for Affordable Multifamily Developments



Source: Examples based on actual development financing; percentages subject to change prior to Final Statewide Housing Plan as more sample developments are reviewed. Graphic by HCD.

Multi-Phased Developments and Cross-Program Funding Create Data Barriers

The large number of funding sources needed to complete an affordable housing development poses challenges not only for developers applying for funds, but it also makes it difficult to evaluate program effectiveness. Complex layering of funding sources, each with its individual program criteria and individual program reporting requirements, complicate efforts to measure the impact of any one program or effectiveness of the overall system. As mentioned in Chapter 1, there are several ongoing efforts to merge data between housing agencies to better understand how various sources come together to complete a development, but merging data has proven difficult.

Merging data is complicated because funding can come from different sources across several years throughout the development planning process. The name, site address, and even development details can change based on when the funding is accessed and for what phase of a development. For example, a development may have a phase of family units funded through 10 sources (including housing-funding programs that are administered by different housing agencies), and a phase of senior units funded through eight sources with a shared common space and parking garage. Perhaps 20 after completion of the development, the operator then applies for additional funding to rehabilitate the property. In order to understand the total funding, one would need to examine data from all the potential funding sources and link the multiple data sources to the one development. However, the various housing agencies that administer the housing-funding programs do not currently have an established system for linking data together.

Although challenging to create, an interagency, unique identification system would allow housing agencies to improve tracking of California's affordable housing portfolio and facilitate data sharing across agencies that have provided separate investments into the same development. It would also allow for improved cost analysis that could strengthen program design in the future.

Affordable Housing Funding

Adding to the complexity of financing affordable housing is the fact that very few sources of funding are stable or growing from year-to-year despite increasing population. This makes it difficult to plan a pipeline of developments into the future. Proposition 46, a $2.1 billion general obligation bond, and Proposition 1C, a $2.85 billion general obligation bond, helped California create and preserve affordable apartments, urban infill infrastructure, single family homes and more than 20 other targeted initiatives starting in 2006, but that funding is now nearly exhausted, while the State continues to pay annual debt service on the bonds from the General Fund, which is estimated to total $400 million in 2016-17 and $10.7 billion over the life of the bonds.

In 2011, ABx1 26 eliminated the State's redevelopment agencies (RDAs) and replaced them with locally organized successor agencies that use the property tax revenue otherwise payable to the former RDAs to retire their debts and other legal obligations. The property tax revenue remaining after these payments is returned to the cities, counties, special districts, and K-14 schools located in the former RDAs' boundaries. Previously 20 percent of RDA funds had been mandated for low- and moderate-income housing, however not all cities used their funds fully. With the returned property tax revenue, local governments have more flexibility about how to spend funds to meet their identified local needs, but they maintain the option to set aside funds for housing. Not all cities have begun this practice, and it is an area of potential additional housing funding for California in future years.

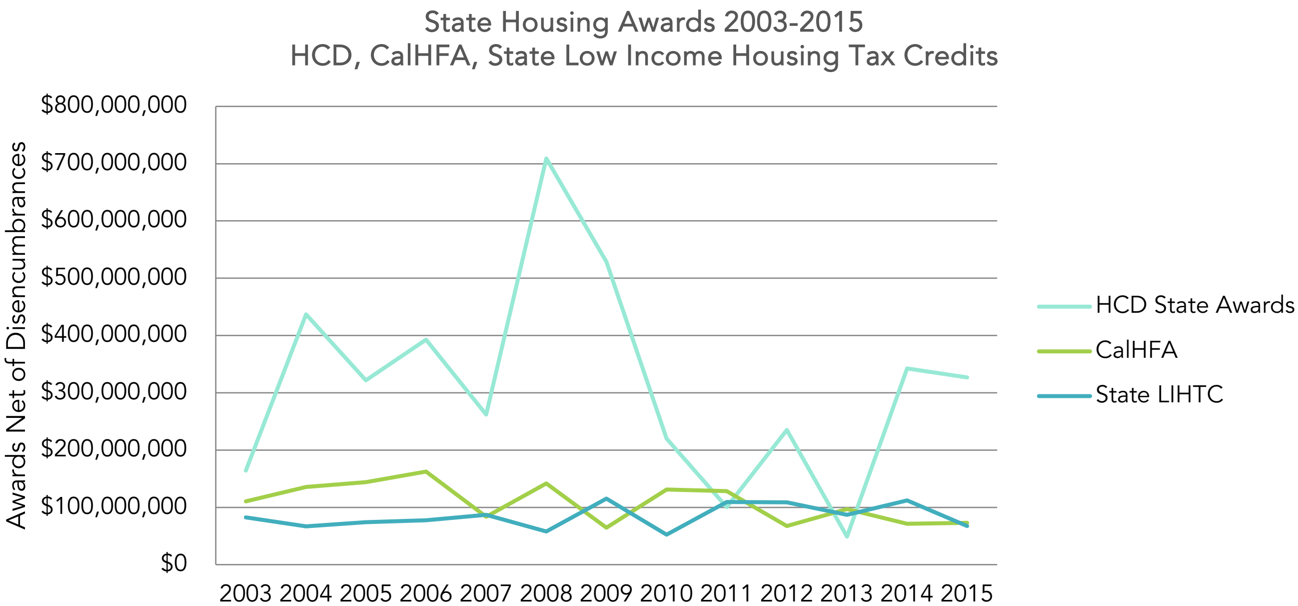
However, several tools have been established by the State to assist jurisdictions. Recent legislation AB 2031 (Bonta), Chapter 2031, Statutes of 2016, established Affordable Housing Beneficiary Districts within the same geographical boundaries of the jurisdiction's RDA successor agencies. This law allows a jurisdiction to redirect its distribution of property tax revenue payable to the city or county from the Redevelopment Property Tax Trust Fund to the affordable housing beneficiary district for as long as the successor agency is in existence. The jurisdiction is then authorized to issue bonds against the property tax revenue to provide financial assistance for the development of affordable housing in the form of loans, grants, and other incentives.

In addition, Enhanced Infrastructure Financing Districts (EIFDs), enacted via SB 628 in 2014, are a relatively new tool that can fund housing, as well as transit priority projects, sustainable communities strategies, military base reuse, brownfield restoration and more using tax increment increases. They may not redirect property tax revenue from K-14 schools, but can provide funding for a wide range of uses similar to RDA, as long as the participating affected taxing entities agree to provide their tax increment revenue to the EIFD. This tool is still in its early stages so there are no completed EIFDs, but several efforts are in progress throughout the State, including in the City of La Verne and in San Diego County.

Furthermore, Community Revitalization and Investment Authorities (CRIA), enacted via AB 2 in 2015, are another new tool for local governments to fund various types of economic revitalization programs including low- and moderate-income housing using tax increment increases. All taxing entities, except K-14 schools, within the district must elect to have their tax increment share diverted to the CRIA. At least 25 percent of allocated tax increment revenues must be for affordable housing purposes. This tool is also still in its early stages and there are no completed CRIAs.

Figure C.2 shows the awards made from 2003-2015 by the California Department of Housing and Community Development (HCD), the California Housing Finance Agency (CalHFA), and the State Low Income Tax Credit (LIHTC) awards made by the Tax Credit Allocation Committee.

Figure C.2
State Awards for Affordable Housing Were Unstable 2003-2015



Sources: HCD Proposition 46 and 1C Cumulative Bond Report (netted disencumbrances). CalHFA Proposition 46 and 1C funding activity data for single and multifamily developments. 2015 includes addition non-bond funded Multifamily Housing Program, Affordable Housing Sustainable Communities, and Veterans Housing and Homelessness Prevention program awards. CalHFA Mental Health Services Act (MHSA) funding activity data, and additional CalHFA funding activity data on down payment assistance programs for single family homes, The only CalHFA funding activity not listed is for programs funded from CalHFA Mortgage Revenue Bonds. Tax Credit Allocation Committee State Low Income Housing Tax Credit (LIHTC) data. All data represents 2003-2015.

New State Housing and Homelessness Prevention Funding

There have been several new funding opportunities for affordable housing and homelessness prevention:

- The creation of the Veterans Housing and Homelessness Prevention (VHHP) Program, funded by voter approved Proposition 41, authorizing $600 million in existing bond authority to provide multifamily housing for homeless veterans. The first round of awards was made in 2015, with $63 million in funding for 17 developments, with 1,221 affordable units and 566 assisted by VHHP.
- The creation of the Affordable Housing and Sustainable Communities (AHSC) Program, which will receive 20 percent of the Greenhouse Gas Reduction Fund (cap-and-trade auction revenues) through the life of the Cap-and-Trade program, currently set to run through 2020. This program supports transportation, housing, and other sustainable communities' strategies that reduce greenhouse gas emissions through reduction in vehicle miles traveled. Strategies include compact, infill development near transit, bike lanes, and complete streets retrofits. The first round of awards for this program was made in 2015, with almost $122 million in total funding and almost $94 million for affordable housing and housing related infrastructure, leading to more than 2,000 affordable homes.

- A one-time $100 million State General Fund allocation to the Multifamily Housing Program (MHP) and its supportive housing component MHP-SH in the 2014-2015 budget. These programs support rental home production and rehabilitation primarily serving very-low income households. These funds have now been fully awarded, leading to the development or rehabilitation of more than 1,500 affordable homes. The demand for each round of these funding programs far exceeded the supply of funds.
- Even more recently, the No Place Like Home program was created in 2016, which addresses homelessness for individuals with mental health needs through the provision of permanent supportive housing. The 2016-2017 budget included $267 million for first year funding, and then will finance a $2 billion bond secured by a portion of future Proposition 63 mental health revenues.
- The 2016-2017 budget also included General Fund allocations for the following housing assistance and homelessness prevention programs:
    a. Emergency Solutions Grants: $45 million to expand the reach of the Federal Emergency Solutions Grant Program; however, $10 million is to be made available for the Homeless Youth and Exploitation Program to assist homeless youth in exiting street life and provides specialized services to youth involved in sexually exploitive activities.
    b. CalWORKS Housing Support Program: $12 million ongoing augmentation, for a total of $47 million, to provide assistance to eligible families who are homeless or at-risk of homelessness.
    c. CalWORKS Homeless Assistance: $2.4 million in 2016-2017 and $2.7 million annually thereafter, along with a change to allow assistance to be available once every 12 months, rather than once-in-a-lifetime, effective January 1, 2017.
    d. Supplemental Security Income Outreach: $45 million to increase participation among homeless persons with disabilities who may be eligible for a disability benefits programs.
    e. Bringing Families Home: $10 million one-time funding to establish a county matching grant program to reduce homelessness among families who are part of the child welfare system.
    f. Community-Based Transitional Housing Program: $25 million to provide grants to communities that support housing that provides treatment and reentry assistance to formerly incarcerated individuals.

Although these resources are beneficial, they do not provide a predictable, ongoing funding source to target production of workforce housing, permanent supportive housing, or urban infill and rural infrastructure issues.

Figure C.3
Chronology of State Direct Assistance for Affordable Housing Funding in California

1979—$100 million State appropriation for HCD affordable housing programs.

1985—State Housing Trust Fund created (without a dedicated or ongoing source of funding).

1986-87—Federal and State low-income housing tax credit created.

1988-1990—$600 million in general obligation bonds for State housing programs approved by voters through Propositions 77, 84, and 107.

2000-01—$550 million included in the State budget from the General Fund for various State housing programs.

2002—$2.1 billion in general obligation bonds for State housing programs approved by voters through Proposition 46.

2006—$2.85 billion in general obligation bonds for State housing programs approved by voters through Proposition 1C.

2014-New Funding for Housing

- ✓ $600 million in existing bond authority approved by voters through
- ✓ Proposition 41 to provide multifamily housing for homeless veterans.
- ✓ The State budget requires the allocation of 20 percent of Greenhouse Gas Reduction revenues to fund the Affordable Housing Sustainable Communities Program, with at least half of the funds for affordable housing. The program is set to run through 2020.
- ✓ $100 million investment included in the State budget from the General Fund for Multifamily Housing Program (MHP) and MHP Supportive Housing.

2016-New Funding Addressing Homelessness and Housing Assistance

- ✓ No Place Like Home established with $267 million in first year funding and a $2 billion bond to address homelessness among those experiencing mental health issues.
- ✓ $174.4 million toward homelessness prevention and housing assistance programs included in the State budget from the General Fund.

Current State Housing and Community Development Programs

Table C.1 below shows the major State-funded housing and community development programs available in 2016, for more detail see Exhibit C1. Currently, there are also several federally funded programs administered by State or local agencies: Federal Low Income Housing Tax Credits, Emergency Solutions Grants, Community Development Block Grants (CDBG), Home Investment Partnership Program (HOME), and Housing Opportunities for Persons with AIDS. These federal programs are described later in this appendix.

Table C.1
Major State-Funded Housing and Community Development Programs 2016 (Current)

PROGRAM	ESTIMATED AMOUNT AVAILABLE 2016
Strategic Growth Council with implementation by California Department of Housing and Community Development, Affordable Housing and Sustainable Communities	$320 million (half of funds designated for affordable housing)
California Housing Finance Agency (CalHFA), MyHome Assistance	$176 million
Tax Credit Allocation Committee, State Low Income Housing Tax Credits	~$100 million
CalHFA and Counties, Mental Health Services Act (MHSA)	$80 million
CalHFA, HCD and California Department of Veterans Affairs, Veterans Housing and Homelessness Prevention	$75 million
CalVet, Farm and Home Loan Program	$66 million
Department of Social Services (DSS), California Work Opportunity and Responsibility to Kids (CalWORKS) Housing Support	$47 million
DSS, CalWORKS Homeless Assistance Program	$32 million
DSS, SSI/SSP Outreach to Homeless Individuals with Disabilities	$45 million

PROGRAM	ESTIMATED AMOUNT AVAILABLE 2016
HCD, State Emergency Solutions Grant Program	$35 million
HCD, Housing Related Parks Program	$25 million
Department of Finance, Community-Based Transitional Housing Program	$25 million
HCD, Mobilehome Park Rehabilitation and Resident Ownership	$15 million
DSS, Bringing Families Home Program	$10 million
Office of Emergency Services, Homeless Youth and Exploitation Program	$12 million
California Department of Corrections and Rehabilitation, Integrated Services for Mentally-Ill Parolees	$2 million
HCD, No Place Like Home	$267 million (Notice of Funding Availability pending program development and bond validation)

State Housing and Community Development Program Outcomes 2003-2015

Since the last Statewide Housing Plan in 2000, the majority of State housing and community development programs were funded through Propositions 46 (2002) and 1C (2006), which together created $4.96 billion in general obligation bonds for housing and housing-related infrastructure. Exhibit C2 shows a sample of awards and outcomes since the last Statewide Housing Plan.

Federal Housing Investment in California

Exhibit C3 includes a chart describing the major affordable housing programs funded at the federal level in more detail. Federal funding for affordable housing can reach California in a variety of ways. For example, federal funding can travel through direct allocations to California entities, such as housing authorities, HCD, or the State Treasurer's Office, which in turn distribute funds to local program applicants. Federal programs alternatively distribute funds to recipients directly through nationwide competitions. Broadly, these programs work to increase the supply of affordable housing by providing tax credits, grants, or loans that lead to production or rehabilitation. Programs can also lower the cost of rental housing by providing rental assistance that reduces the rent paid by the income-eligible household, which allows the property owner to collect rents that are closer to market-rate levels.

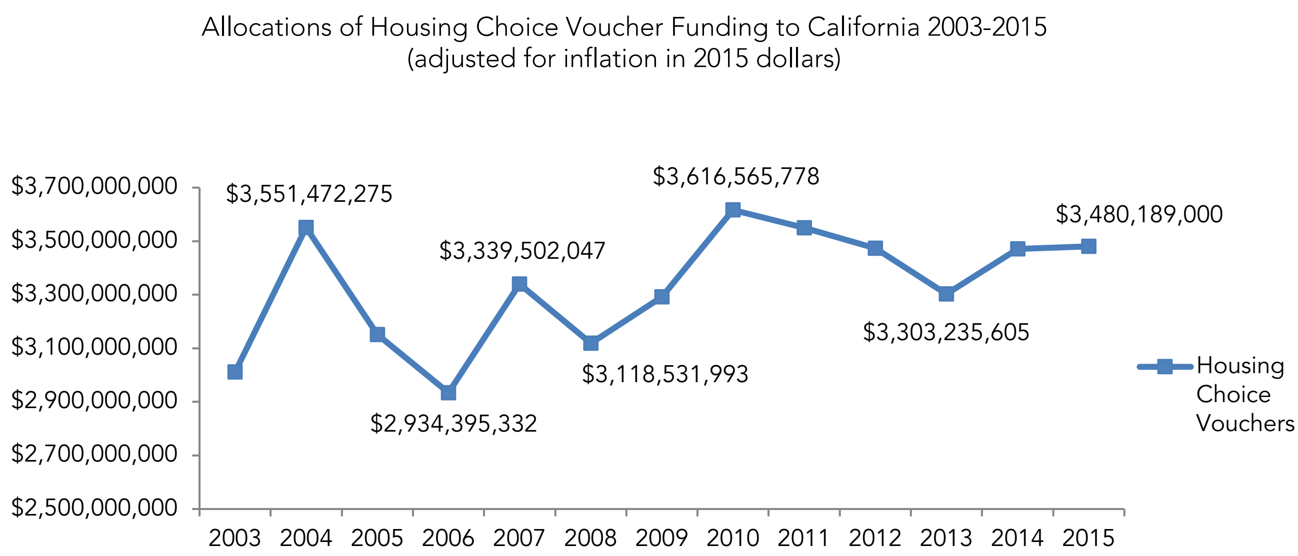
Federal affordable housing funds make up a significant portion of the housing resources in California, but many of these sources have been declining in recent years, even as the number of severely cost-burdened, low-income renter households has risen (from 1.2 million in 2007 to 1.7 million in 2014[i]). Many of the cuts were exacerbated by "sequestration," enacted in March 2013, where mandatory, automatic cuts went into place for most discretionary federal programs. This instability in funding inhibits efforts to address housing challenges in a sustained effort and deters the ability for developers to create a pipeline of affordable housing.

Federal Housing Choice Vouchers

Federal Housing Choice Voucher Program is the largest rental assistance program, and, as of December 2014, California's allocation of funds provides vouchers for almost 300,000 low-income households, which is nearly 15,000 fewer vouchers than prior to sequestration cuts.[ii]

While Housing Choice Voucher funding has remained relatively stable in recent years, as seen in Figure C.4, the program still experienced a $140 million decline between 2010 and 2015.

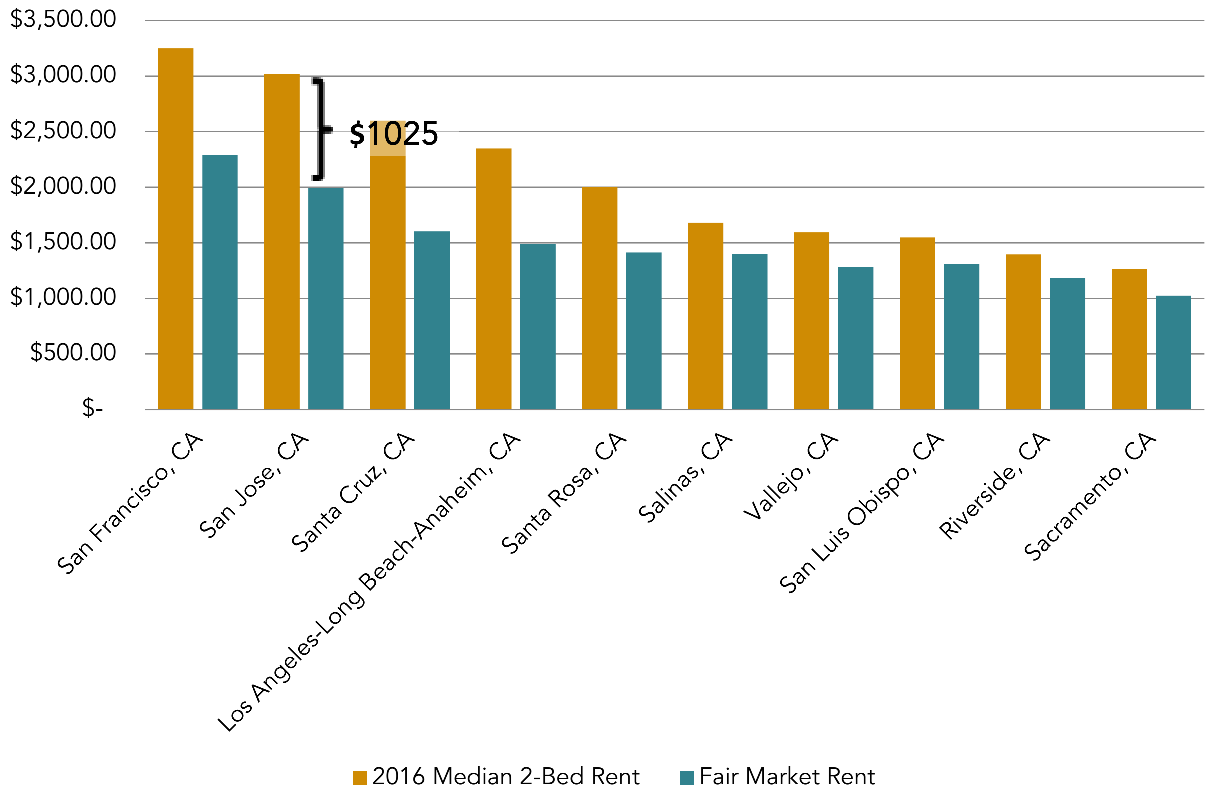
Figure C.4
Housing Choice Voucher Funding Has Fallen Since 2010



Source: 2003-2015 Budget of the United States Government – Analytical Perspectives – California Actual Funding Housing Choice Vouchers. Graphic and inflation adjustment by HCD.

Recently, escalating rents in California is making it more difficult for households with federal Housing Choice Vouchers to find homes where they can use their voucher. Additionally, the amount of rent a federal Housing Choice Voucher will cover cannot exceed what HUD determines to be Fair Market Rent, (FMR), which, in high-cost areas, can fall significantly below actual market rent (as shown in Figure C.5), thereby pricing families out altogether. HUD has proposed a rule to calculate FMRs by zip code, which by being more location-specific, could provide FMRs that more accurately reflect actual market rents.

Figure C.5
Assistance Is Insufficient to Afford the Median Rent in Many CA Cities



Sources: 2016 Fair Market Rents – HUD, 2016 2-Bedroom Median Rents – Zillow

Section 8 Project-Based Rental Assistance

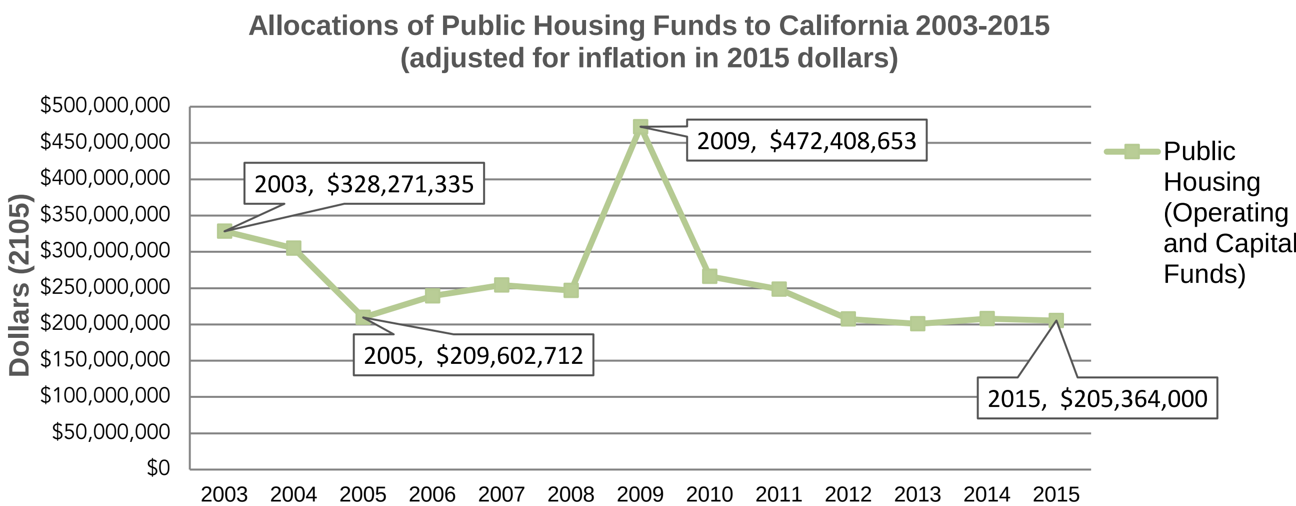
In addition to Housing Choice Vouchers, HUD provides project-based rental assistance contracts with owners of multifamily rental housing through the Section 8 Project-Based Rental Assistance program. The income eligibility requirements limit occupancy to very low-income families (50 percent AMI and below). Originally, the assistance was provided in connection with new construction or substantial rehabilitation, but the authority to use project-based rental assistance in connection with new commitments ended in 1983. Funding continues to be available for the renewal of contracts for units already assisted with project-based Section 8 renewal assistance.[iii] In 2014 California received $981,354,224 for Section 8 Project-Based Rental Assistance to fund approximately 100,000 project-based vouchers.[iv]

Public Housing

Public housing developments are overseen and administered by local housing authorities. There are 219 public housing developments in California, with more than 37,000 units.[v]

The federal government's Public Housing Program is funded through two main streams: (1) the Public Housing Operating Fund, which is intended to cover operating costs that exceed what the property collects in rent, and (2) the Public Housing Capital Fund, which funds more substantial renovations. Nearly all public housing developments have accumulated large underlying renovation needs. A 2010 HUD study estimated the total unmet capital needs in public housing developments at more than $26 billion nationwide.[vi] Public Housing received a boost of funding in 2009 due to the American Recovery and Reinvestment Act stimulus package, but since 2010, public housing funding to California has declined 23 percent, from almost $266 million to $205 million.

Figure C.6
Public Housing Investment Falls After Boost in Stimulus Package



Source: 2003-2015 Budget of the United States Government – Analytical Perspectives – California Actual Funding Public Housing Operating Fund and Public Housing Capital Fund. Inflation adjustment to 2015 dollars using Bureau of Labor Statistics Consumer Price Index 2003-2015. Graphic and inflation adjustment by HCD.

No funds have been provided to build additional public housing since the mid-1990s, but HUD has embarked on several new efforts to address existing public housing, including the Rental Assistance Demonstration, Choice Neighborhoods, and HOPE VI programs.

Rental Assistance Demonstration (RAD)

The RAD program was created in order to give housing authorities a powerful tool to preserve and improve public housing properties and address the $26-billion-dollar nationwide backlog of deferred maintenance. RAD also gives owners of three HUD "legacy" program (Rent Supplement, Rental Assistance Payment, and Section 8 Moderate Rehabilitation) the opportunity to enter into long-term contracts that facilitate the financing of improvements.

Choice Neighborhoods

The Choice Neighborhoods Program aims to improve neighborhood assets by requiring communities to develop and implement a comprehensive neighborhood revitalization strategy. Strategies are intended to involve local leaders, residents, and stakeholders who are focused on replacing distressed public and assisted housing with mixed-income housing and improve educational outcomes through services and support for youth and their families, with the goal of attracting additional investment into the communities.

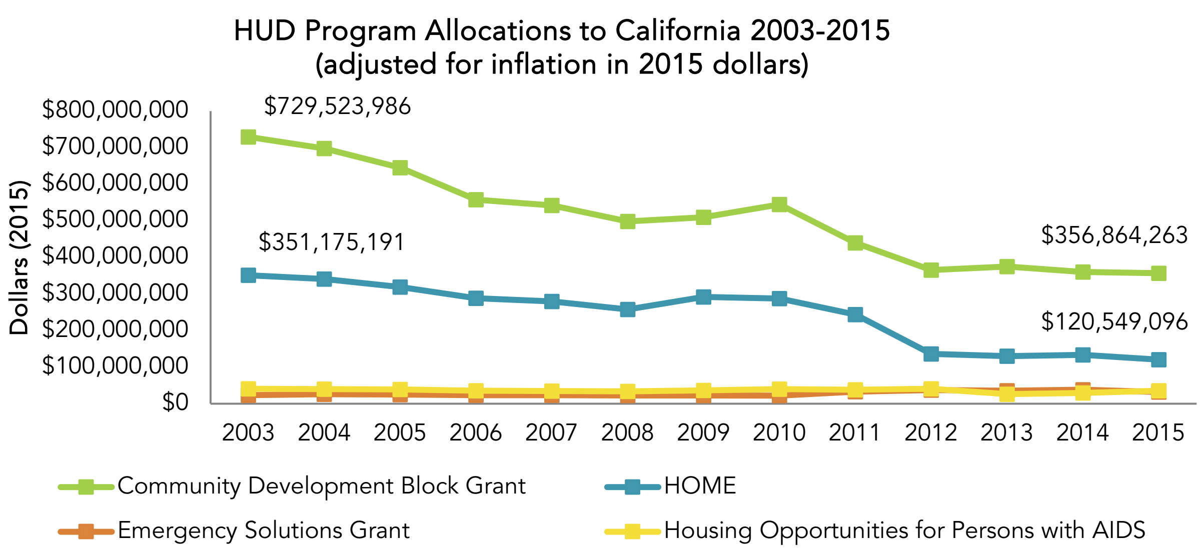
HOPE VI

The HOPE VI Program seeks to completely transform existing public housing and lift up communities by changing its physical shape, establishing comprehensive services, incentivizing mixed-income communities; and creating partnerships with agencies, local governments, nonprofit organizations, and private businesses.

Major HUD Affordable Housing and Community Development Grant Programs

HUD allocates four main grant programs directly to larger jurisdictions (known as entitlement jurisdictions or participating jurisdictions): the CDBG, HOME Program, Emergency Solutions Grant Program, and Housing Opportunities for People with AIDS. In order to serve smaller jurisdictions that may have less capacity to administer funds directly, HUD also provides allocations to State agencies that, in turn, make awards to those smaller jurisdictions. Federal funds allocated to California for the CDBG and HOME programs have seen substantial reductions (51 percent and 66 percent, respectively) resulting in a huge decline in funding available to produce, or substantially rehabilitate, new affordable housing in California.

Figure C.7: HUD Program Allocations to California Declined from 2003-2015



Source: HUD Formula Program Allocations by State: 2003-15. Graphic and inflation adjustment by HCD.

Federal Housing Tax Credits

The federal Low Income Housing Tax Credit (LIHTC), created in 1986, provides tax incentives for private investment in affordable housing. In California, the Federal LIHTC Program is under the purview of the State Treasurer's Office through the California Tax Credit Allocation Committee (TCAC).

There are two main federal-tax credits that support affordable housing:

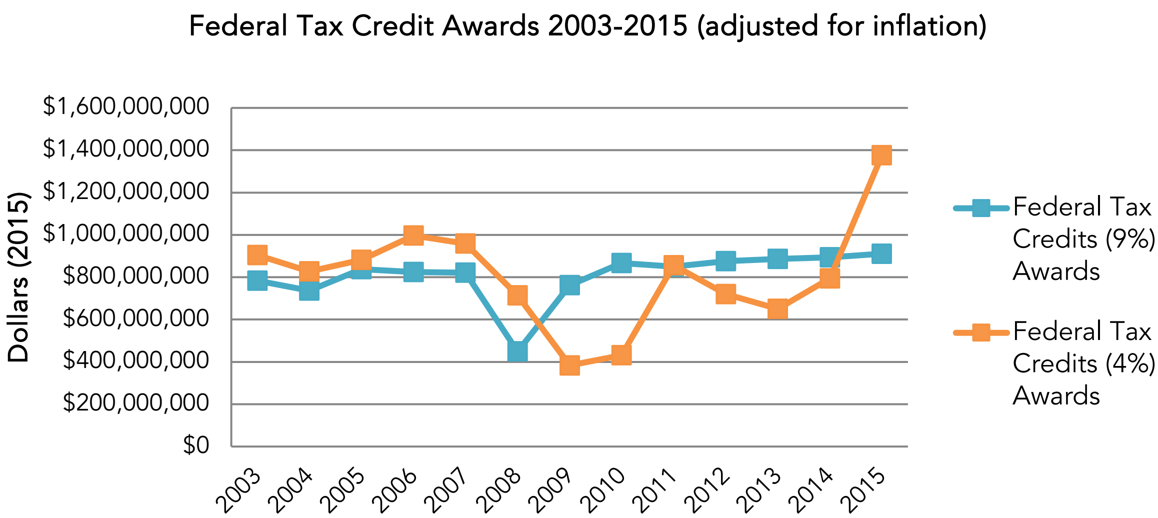
- **4-Percent Tax Credits:** These tax credits can only cover up to 30 percent of development costs, so significant subsidies are needed to make them usable. However, 4-percent tax credits are in much greater supply than the 9-percent tax credits and, therefore, less competitive. In the last decade California has not accessed the maximum available—meaning that this is one program that is actually undersubscribed as compared to the total funding available. In recent years the State has undertaken revisions to the program to encourage greater use of this funding source.
- **9-Percent Tax Credits:** These tax credits can cover up to 70 percent of development costs, so they require less additional funding to be workable. As a result, the 9-percent tax credit is extremely competitive. High-quality developments may compete year after year through several 9-percent tax-credit funding rounds until they receive an award to complete their funding package. During this time construction is delayed. Given the competitive nature of this program, applicants that apply for 9-percent tax credits are asked to meet more requirements than applicants for the less-competitive 4-percent program. For example, to be competitive, proposed developments must achieve deeper income targeting (serve people with the lowest-income levels) and address more policy goals.

When the State encourages use of 4-percent tax credits through programs that offer matching funds:

1) New funding is brought to the State.
2) The 9-percent program experiences less competition, allowing developments to wait through fewer funding cycles before receiving a 9-percent award, thus allowing construction to begin sooner.
3) The State can also encourage deeper affordability for developments using 4-percent tax credits. Several current State programs described above (including the Veterans Housing and Homelessness Prevention Program and the Affordable Housing and Sustainable Communities Program) encourage the use of 4-percent tax credits. One of HCD's flagship programs, the MHP—previously funded by Propositions 46 and 1C housing bonds—is specifically designed to complement 4-percent tax credits. Although there is no remaining funding from Propositions 46 and 1C to fund MHP, in February 2016, the program received a one-time General Fund allocation of $50 million.

Federal housing-tax credit awards to California have remained relatively stable since 2003 with the exception of a notable increase in 2015, which could possibly be the result of efforts to increase 4-percent tax-credit utilization rates.

Figure C.8
Federal Housing Tax Credit Awards to California Declined During Recession; However 4-Percent Credits Show Recent Increase



Source: HCD Analysis of TCAC Mapped Developments. Graphic by HCD.

An Emerging Opportunity: The National Housing Trust Fund

The National Housing Trust Fund was created through the Housing and Economic Recovery Act of 2008. The fund focuses on extremely and very-low income households, those with the greatest rent burdens, and those at-risk of homelessness. The source for the National Housing Trust Fund is dedicated revenue from an assessment on new business at Fannie Mae and Freddie Mac. However, in 2008, due to the housing-market crisis, Fannie Mae and Freddie Mac were placed into conservatorship overseen by the Federal Housing Finance Agency, which placed a suspension on assessment for the National Housing Trust Fund. In December 2014, the suspension was lifted and 2016 marks the first year of funding and implementation for the National Housing Trust Fund. California is set to receiving approximately $10.1 million in the first year. This is a modest allocation, but successful implementation in the early years could help protect and grow this new funding source for affordable homes.

Mortgage Interest Deduction

Though not specifically an affordable housing resource, it is worth noting that the largest single federal investment in housing is the Mortgage Interest Deduction, which reduced an estimated $68.5 billion in federal tax revenues nationally for Fiscal Year 2012, with California representing $11.5-$16.1 billion of that figure.[vii] According to the Congressional Budget Office, the top 20 percent of income earners receive 75 percent of the benefit from this deduction and the top one percent of income earners receives 15 percent of the benefit. California also has a State

Mortgage Interest Deduction, which represented an estimated loss to the State General Fund of $4.4 billion in Fiscal Year 2012-2013 and $4.8 billion in fiscal year 2015-2016.[viii]

Complex Set of Tradeoffs and Choices in Considering Housing Investments

California is facing many housing challenges and has limited funds to address them. There are nearly 1.7 million lower-income renter households that are severely rent-burdened (paying more than 50 percent of their income toward rent), a large population of chronically homeless individuals, and low rates of homeownership. Difficult choices must be made to face these challenges as the State examines current funding and approaches and considers how to design new programs.

Table C.2: Description of Tradeoffs to Consider in Affordable Housing Program Design

TRADEOFFS AND CHOICES TO BALANCE AND CONSIDER	BRIEF EXPLANATION OF TRADEOFFS AND CHOICES
Broad-based and flexible vs. targeted policies	Flexible strategies allow for impact on a broader range of issues and are adaptable over time as issues and priorities shift. Targeted programs tackle an explicit housing challenge and can align program requirements to directly address that challenge. However, constraining a program to a specific purpose potentially leaves out other worthy goals and requires a separate program for each policy objective.
Achieving more objectives through a single development vs. lower program costs and complications	Affordable housing programs address multiple objectives while simultaneously providing wide-reaching benefits. For example, a development can provide supportive services and health-care, accommodations for persons with disabilities, energy-efficiency above code, after-school tutoring, access to jobs and transportation, as well as address public health and greenhouse gas objectives. However, requiring each development to meet a growing list of criteria increases costs and complications for developers of affordable housing.
Statewide competition vs. geographic targeting	Holding a statewide competition ensures that the applicants that meet program criteria most effectively receive awards. However, due to regional funding and planning capacity differences, this can result in areas of the State receiving significantly less in funding. For example, as State policies direct investment towards transit-oriented development in existing public-transportation corridors, areas that have not yet built their transportation infrastructure, or have traditionally planned at lower densities, will struggle to compete.

TRADEOFFS AND CHOICES TO BALANCE AND CONSIDER	BRIEF EXPLANATION OF TRADEOFFS AND CHOICES
Investing in communities of opportunity with greater access to jobs, services, high-performing schools, and amenities vs. investing in and improving disadvantaged and underserved areas	There is a mismatch between the communities of opportunity, where jobs, services, and high-performing schools are concentrated, and where housing production has occurred during the last 10 years. Much of the housing production occurred in counties that have fewer jobs and services and overlap considerably with the State's top 25 percent of disadvantaged communities. The disadvantaged community indicators include job availability and incomes, access to quality education, and environmental conditions, such as safe drinking water and lower pollution levels. The State must work toward increasing access to areas of opportunity and increasing the supply of housing in these areas, but also seek to improve conditions in the State's disadvantaged communities. To address housing problems throughout the State, California needs responsive and flexible, place-based investment strategies, such as infrastructure improvements and community development interventions that address health, education, and economic disparities.
Developing in high-cost areas to ease demand vs. lower cost-per-unit investments in other markets	The State's urban areas experience higher housing costs than other areas of the State, in part due to low supply in comparison to the demand. Urban areas often overlap with the socio-economic opportunity described in the tradeoff above and have environmental benefits associated with less driving due to the presence of transit and denser concentrations of jobs and services. The State could target resources to increasing the supply of affordable housing in these areas. Alternatively, the high land costs require greater contributions of funding than building affordable homes in lower-cost areas; resulting in fewer affordable homes produced with the same level of State funding.

TRADEOFFS AND CHOICES TO BALANCE AND CONSIDER	BRIEF EXPLANATION OF TRADEOFFS AND CHOICES
Preserving and rehabilitating existing housing vs. new construction	Rehabilitating existing homes and putting in place affordability protections carries substantially lower costs than building new affordable homes. Preservation and rehabilitation of existing homes is an important tool to increase access to affordable homes for lower-income households given limited resources. Nonetheless, it does not increase the supply of total homes available in California, another worthy objective.
Capital subsidies vs. tenant-based rental assistance	Capital subsidies allow for new construction or substantial rehabilitation of existing housing to create affordable homes; a strategy that creates long-lasting affordability (typically 55 years) to serve lower-income households. However, the process of planning, funding, and completing construction of affordable homes takes years to complete. Rental assistance can help provide access in more immediate terms for households in need and allow more flexibility in terms of location. It can be particularly helpful for households experiencing a temporary economic difficulty as rental assistance can help them stabilize until they are able to cover expenses on their own. Like preservation strategies, rental assistance supports affordable housing access, but does not address housing supply challenges.
Deeper affordability vs. greater total unit production	When all other program components are held equal, programs that produce new housing or preserve affordability for extremely and very-low income households require a greater per unit investment in order to provide residents with an affordable housing cost than programs that are targeted to households at greater income levels. This is because those households with higher incomes can pay a greater personal contribution toward housing costs and require less public contribution to make up the difference between the market-rate housing cost and the affordable level. By extension, a program with the same amount of funding could produce more affordable units for higher-income households than lower-income households. However, there are far fewer market-rate units available to extremely low- and very-low income households, and these households are at greater risk of homelessness, which can have long-lasting negative impacts to both the household and the State's investment in social services.

Tools to Evaluate and Improve Approaches to Affirmatively Further Fair Housing

In addition to the tradeoffs listed above that can help guide the design of housing programs, HCD will be examining its programs in relationship to fair housing goals. "Fair housing" is protection from discrimination when renting, buying, or securing financing for any housing. Affirmatively Furthering Fair Housing (AFFH) requires federal programs and federal grantees to further the purposes of the Fair Housing Act of 1968 by assessing and taking actions to eliminate housing discrimination, promoting housing that is structurally usable by all people (particularly those with disabilities), and providing opportunities for inclusive patterns of housing regardless of race, color, religion, sex, familial status, disability, and national origin.[ix]

Starting in the late 2000s, there was renewed focus on AFFH from the U.S. Department of Housing and Urban Development (HUD). This included a new AFFH rule and guidance in 2015 that clarifies fair housing obligations and the process to set fair housing priorities through an Assessment of Fair Housing. The rule identifies four fair-housing issues that states will need to assess:[x]

1) Patterns of integration and segregation.
2) Racially or ethnically concentrated areas of poverty.
3) Disparities in access to opportunity.
4) Disproportionate housing needs.

This process to set fair housing priorities will include data collection and analysis to identify fair housing issues and related contributing factors. Inclusive community participation will help set goals to increase fair housing choice and provide equal access to opportunity for all community members. These goals and priorities will, in turn, inform investments and planning decisions.

In recognition of the importance of fair housing goals and HUD's recent guidance, HCD will engage in this process over the next several years to better promote fair housing principles through its current programs and identify strategies for designing future housing programs. Affirmatively furthering fair housing will increase access to opportunity. Success will require a two-pronged approach: 1) increasing new developments and access in the State's areas of opportunity, and 2) working to improve disadvantaged communities through community development and infrastructure improvements.

One of the early steps in this process will be to identify tools that can help determine current areas of opportunity and evaluate HCD's programs through an Affirmatively Furthering Fair Housing lens. The CalEnviroScreen mapping tool described in Appendix A (an online tool developed by the Office of Environmental and Health Hazard Assessment to identify socio-economically and environmentally disadvantaged communities) and the Regional Opportunity Index (developed by UC Davis), will serve as useful models as HCD moves forward with the AFFH process; however, no specific tool has yet been chosen.

Regional Opportunity Index

The Regional Opportunity Index from UC Davis' Center for Regional Change is an index for understanding social and economic opportunity in California's communities. The goal of the Regional Opportunity Index is to help target resources and policies toward people and places with the greatest need, thereby fostering thriving communities of opportunity for all Californians. The Index incorporates both a "people" component and a "place" component, integrating economic, infrastructure, environmental, and social indicators into a comprehensive assessment of the factors driving opportunity. For example, Table 4.3 describes some of the 33 indicators that make up the overall People and Place Regional Opportunity Index.

Table C.3
UC Davis Regional Opportunity Index—Sample of Indicators

EDUCATION OPPORTUNITY: PEOPLE	
Math Proficiency	Percentage of 4th graders who scored proficient or above on the math portion of California's Standardized Testing and Reporting (STAR) test (Source: California Department of Education).
EDUCATION OPPORTUNITY: PLACE	
Teacher Experience	Percentage of teachers at the three closest public elementary schools with more than five years of teaching experience and at least one year of education beyond a BA (Source: California Department of Education).
ECONOMIC OPPORTUNITY: PEOPLE	
Employment Rate	Percentage of adults age 20-64 employed (Source: American Community Survey).
ECONOMIC OPPORTUNITY: PLACE	
Job Quality	Percentage of jobs that are in high-paying industries, within a 5-mile radius (Source: National Establishment Time-Series).
HOUSING OPPORTUNITY: PEOPLE	
Homeownership	Percentage of housing units owned by their occupants (Source: American Community Survey).
HOUSING OPPORTUNITY: PLACE	
Housing Adequacy	Percentage of households with no more than one occupant per room (Source: American Community Survey).
MOBILITY/TRANSPORTATION OPPORTUNITY: PEOPLE	
Commute Time	Percentage of workers whose commute time is less than 30 minutes (Source: American Community Survey).
HEALTH/ENVIRONMENT OPPORTUNITY: PLACE	
Health Care Availability	Number of providers of basic medical services per 1,000 people within five-mile radius (Source: National Establishment Time-Series).
CIVIC LIFE OPPORTUNITY: PEOPLE	
Voting Rates	Percentage of the citizen, voting-age population that voted the 2010 general election (Source: American Community Survey; California Registrar of Voters).

Source: UC Davis Center for Regional Change, Regional Opportunity Index Online Tool, Data Descriptions, http://interact.regionalchange.ucdavis.edu/roi/index.html

Conclusions

- California needs both public and private investment, as well as land use solutions to address critical housing challenges. Funding programs cannot address California's housing need alone and land use policy changes, such as those discussed in Appendix B, are critical. However, even with drastic changes in land use policy to increase supply, the needs of certain populations cannot be met by the private market alone. Funding programs allows the State to target resources to these populations.
- There is extreme complexity in financing programs and the combination of funding sources required to build affordable homes.
- Housing programs are increasingly viewed as a platform to achieve multiple policy goals. Increased collaborations across sectors can improve housing programs, but may add complexity to an already complex funding model.

End Notes

[i] Analysis of 2007 and 2014 American Community Survey Public Use Micro Sample Data. California State Level Data.

[ii] Center on Budget and Policy Priorities. "How Housing Vouchers Can Help Address California's Rental Crisis", February 2016. http://www.cbpp.org/research/housing/how-housing-vouchers-can-help-address-californias-rental-crisis

[iii] "Programs of HUD: Major Mortgage, Grant, Assistance, and Regulatory Programs 2016," U.S. Department of Housing and Urban Development. http://portal.hud.gov/hudportal/documents/huddoc?id=HUDPrograms2016.pdf

[iv] Center on Budget and Policy Priorities. "California Fact Sheet: Federal Rental Assistance", August 2015. Center on Budget and Policy Priorities tabulations of 2014 HUD administrative data. http://www.cbpp.org/research/housing/national-and-state-housing-fact-sheets-data?fa=view&id=3586#map

[v] California Housing Partnership Preservation Database, U.S. Department of Housing and Urban Development Public Housing Data. California State Level Data. 2016.

[vi] Abt Associates prepared for U.S. Department of Housing and Urban Development, "Capital Needs in the Public Housing Program". November 2010.

[vii] Analysis of fiscal year 2012. Keightly, Mark P., "An Analysis of the Geographic Distribution of the Mortgage Interest Deduction," Congressional Research Service, January 2014.

[viii] "Tax Expenditure Report 2015-2016" and "Tax Expenditure Report 2012-2013," California Department of Finance. http://www.dof.ca.gov/Forecasting/Economics/Tax_Expenditure_Reports/index.html

[ix] U.S. Department of Housing and Urban Development. Fair Housing Planning Guide, Vol. 1 (#HUD- 1582B-FHEO). March 1996.

[x] U.S. Department of Housing and Urban Development. Affirmatively Furthering Fair Housing (AFFH) Final Rule Overview. 2015. https://www.hudexchange.info/programs/affh/