



COUNCIL AGENDA: 5-12-15
ITEM: 2.13

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Toni J. Taber, CMC
City Clerk

SUBJECT: SEE BELOW

DATE: 5-8-2015

SUBJECT: AB 35 (CHIU AND ATKINS) LOW INCOME HOUSING TAX CREDIT

RECOMMENDATION

As recommended by the Rules and Open Government Committee on May 6, 2015 and outlined in the attached memo previously submitted by the Rules and Open Government Committee, approve a support position for AB 35 (Chiu and Atkins) Low Income Housing Tax Credit.



CITY COUNCIL ACTION REQUEST

Department(s): Housing	Date: 4/29/15	Coordination: City Attorney's Office City Manager's Office	Dept. Approval: /s/ Jacky Morales-Ferrand CMO Approval: <i>[Signature]</i>
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SUBJECT: AB 35 (Chiu & Atkins) Low Income Housing Tax Credit

RECOMMENDED POSITION: Support

RECOMMENDED ACTION:

1. Pursuant to the City's streamlined bill process for responding quickly to legislative proposals, support AB 35 (Chiu & Atkins) – Low Income Housing Tax Credit.
2. Recommend a one-week turnaround so that the City's Legislative Advocate in Sacramento can indicate a support position for AB 35 (Chiu & Atkins).

BILL SYNOPSIS:

The low-income housing tax credit (LIHTC) program is a key tool for the production of affordable apartments in California and throughout the country. In California, to fund a portion of affordable developments, developers utilize either 4% or 9% Federal tax credits awarded through the State's Treasurer's Office. The State of California provides additional tax credits (currently capped at \$100 million) to supplement the federal program. Credits are awarded to qualified developers who can then sell those credits to private investors who use the credits to reduce their federal tax liability. The developer in turn invests the capital into the affordable housing project. Thus, the LIHTC program has a triple positive impact: it provides developers capital to finance affordable housing, it provides affordable housing opportunities to the community, and it leverages private capital by providing the private sector a tax benefit. State LIHTC programs also work to leverage Federal tax credit resources.

AB 35 proposes changes that expand and increase the flexibility of the existing State LIHTC program in order to provide additional resources for the creation of much needed affordable housing opportunities. Key revisions to California's program proposed by the bill include: increasing the State program from its current cap of \$100 million by an additional \$300 million to fund the construction and rehabilitation of affordable multifamily rental housing throughout California; increasing the allowable State match for development proposals receiving 4% federal tax credits (as opposed to the 9% tax credit program) from 13% to 50%; and allowing State credits to be awarded to developments located in hard-to-develop communities (known as "Qualified Census Tracts" or "Difficult Development Areas"). San José currently has several Qualified Census Tracts. It is estimated that AB 35 will allow the State tax credit program to leverage an estimated additional \$200 million in federal 4% tax credits and at least \$400 million in federal tax-exempt bond authority.

AB 35 will require a majority vote of the Legislature and will take effect immediately as a tax levy.

IMPACTS TO CITY OF SAN JOSE:

Over the last 25 years, tax credit programs have been leveraged to facilitate the creation of over 130 affordable housing developments comprising over 13,900 affordable homes in San José. Given the elimination of San José's approximately \$40 million it received annually for affordable housing under the Redevelopment Agency, and the depletion of other State housing programs, it is imperative that the tax credit programs be maximized and run as efficiently as possible. AB 35 is one of two bills—the other being SB 377

(and submitted as a separate Council action request)—that would greatly improve the availability and efficiency of the State tax credit program.

Given high development costs in San José, it is extremely difficult to fill the entire financing gap to cover total development costs for new affordable apartments solely through the use of 4% and tax-exempt bond financing. AB 35 would enable the State credits to be used with 4% and tax-exempt bonds more easily, and could potentially enable 2-3 more deals per year to proceed locally. These deals could also finance development proposals for deeper affordability to benefit those most in need than without the changes proposed in this legislation. In addition, as the City typically acts as tax-exempt bond issuer in our jurisdiction, the City would receive additional up-front fees in connection with bond issuance without the direct credit risk of a lender.

The City should support AB 35, which would provide funding that is critically needed in order to increase, preserve and improve the City's affordable housing stock, creating homes that are desperately needed to house the City's workforce as well as to end chronic homelessness.

POLICY ALIGNMENT:

This bill aligns with the Council-approved *2015 Legislative Guiding Principles and Priorities* to “ensure that state and federal housing and community development related tax programs, policies, and proposals maximize and protect the benefits to San José.”

SUPPORTERS/OPPONENTS:

Support: The bill is co-sponsored by: the California Housing Consortium, California Housing Partnership and the Non-Profit Housing Association of Northern California. The bill is supported by Housing California, State Treasurer John Chiang, the County of Santa Clara, the Mayors of San Francisco, Oakland, Los Angeles and San Diego, and a variety of organizations, including CORE Affordable Housing.

Opposed: The bill has no registered opponents at this time.

STATUS OF BILL:

The bill was introduced on December 1 and amended on March 2. It was heard and passed unanimously in the Assembly Housing and Community Development Committee on April 15, 2015 and referred to be heard in the Assembly Committee on Revenue & Taxation. If passed, the bill will then go to Assembly Appropriations Committee before a full vote of the Assembly. Bills must pass out of their House of origin by June 5, and then move to the second House for consideration. September 11 is the last day for bills pass out of both Houses for consideration by the Governor.

FOR QUESTIONS CONTACT: Jacky Morales-Ferrand, 408-535-3851