

LOW INCOME HOUSING TAX CREDITS

**Assessing the Costs,
Impacts and Policy
Implications of
Tax Subsidies for
Affordable Housing**



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ABOUT SMART CITIES PREVAIL

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EXECUTIVE SUMMARY

Low Income Housing Tax Credits, or LIHTC, are complex, publicly subsidized financial arrangements designed to spur investment in the construction of affordable housing units. This report examines who benefits from these arrangements, who doesn't, and how California could better utilize these instruments to address its ongoing housing crisis.

LIHTCs Attract Financing for Thousands of Affordable Housing Projects in California Every Year.

- LIHTCs are credits against future tax liabilities that are traded from developers to investors to finance the rehabilitation of existing housing units, or construction of new housing units.
- Since LIHTCs were first created by Congress in 1986, they have helped fund over 225,000 new units or acquisition and rehabilitation of almost 190,000 additional units in California.
- LIHTC subsidies help produce an average of 7,700 new units of affordable housing in California each year over half of California's annual "low income" housing production.
- California awarded over \$3.5 billion in federal and state LIHTCs in 2019 alone, and awarded another \$2.4 billion in the first half of 2020 to new construction projects.

LIHTC Subsidies Disproportionately Benefit Wealthy Investors, and Often Provide More Subsidies Than are Needed to Finance Projects.

- Most LIHTCs enable investors to reduce their income tax liabilities for 10 years.
- Every dollar in federal tax credit only generates \$.94 towards affordable housing construction. Each dollar in state tax credits generates just \$.80 for housing projects.
- Excess state and federal credits—beyond what is needed to finance LIHTC projects approved in the first half of 2020—will cost California taxpayers \$217 million, or as much as \$26,700 per LIHTC financed housing unit.
- Not including the excess credits claimed by LIHTC investors; landowners, construction firm owners, real estate developers, and banks capture 35% of every budgeted dollar on California's 2020 LIHTC financed projects. Construction workers will capture just 14%.

LIHTCs Deepen Economic Burdens Plaguing California's Homebuilding Workforce

- Unless they also use other types of public funding, LIHTC subsidized projects are not required to pay construction workers who build them anything beyond minimum wage.
- Unlike other types of publicly financed construction, over half (51%) of California's LIHTC units approved in the first 6 months of 2020 will not be required to pay prevailing wage.

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- According to U.S. Department of Housing and Urban Development standards, 53% of California Construction worker families are classified as “Low Income” (LI) or “Very Low Income” (VLI).
- Median family income for California’s blue collar construction workers lags that of non-construction families by 15%. The income gap is almost 30% for people of color.
- The income gap between California construction workers and non-construction workers is largest, as is the percentage of construction workers classified as Low Income or Very Low Income, in coastal cities where the state’s affordability crisis is most acute.

California LIHTCs Have Made One Idaho Developer Millions of Dollars, as His Workers Struggle with Housing Costs

- Since 2010, LIHTCs awarded by the State of California have helped finance 9 out of every 10 units completed by The Pacific Companies, an Idaho-based developer and builder with one shareholder.
- Recent project analysis show that in at least one instance Pacific subcontractors have paid workers wages far below those needed to afford market rate housing, and failed to comply with state labor laws.
- In 2020, California awarded Pacific the second highest amount of LIHTCs of any developer.
- In 2020, 82% of the company’s LIHTC projects will not pay prevailing wage. Yet Pacific will receive an estimated \$46 million in developer fees, and its investors will receive \$200.6 million in income tax credits despite only contributing \$179.3 million towards project costs.

LIHTC Reforms Could Maximize Value for California Taxpayers

- To address its housing supply and affordability crisis, California must attract more construction workers and decrease the number of workers requiring housing assistance.
- Prevailing wage is linked to boosting construction worker incomes as well as attaching more workers to the skills they need to build careers in the industry.
- Research has concluded that prevailing wage does not increase construction costs, because it delivers better safety, efficiency, and workforce productivity outcomes on the jobsite.
- Requiring LIHTC financed projects to pay prevailing wages and support apprenticeship programs would align them with other publicly subsidized construction projects.
- Expanding prevailing wage requirements to more LIHTC projects would reduce the social costs of housing construction workers needing to rely on other taxpayer funded assistance programs.

TABLE OF CONTENTS:

■ Introduction: Do LIHTCs Help Housing Affordability or Make It Worse?	1
■ What are Low Income Housing Tax Credits and How Do They Work?	2
■ California’s Tax Credit Allocations and Labor Standards	5
■ Case Study: Caleb Roope’s The Pacific Companies	7
■ Case Study 2: California’s Struggling Housing Construction Workforce	9
■ How Reform of LIHTCs Could Maximize Value for California Taxpayers	11
■ Conclusion	14
■ Appendix	15

Introduction: Do LIHTCs Help Housing Affordability or Make it Worse?

The need to narrow the gap between California housing costs and family incomes is a challenge of enormous magnitude. California needs 3.5 million new units of housing—15 percent of the existing housing stock that has been built up over many decades—in order to reduce costs that burden 40 percent of California households.¹

In an effort to reduce housing costs by ramping up supply, governments have sought to employ strategies ranging from streamlining land-use regulations to offering real estate developers' tax credits. In each case, the government's efforts have focused on meeting certain social and economic goals. Analyzing how individual strategies work, who benefits, and who they leave behind is vital to the broader imperative of addressing California's housing affordability crisis.

This issue brief explores the State of California's administration of Low-Income Housing Tax Credits (LIHTCs—pronounced Lī-tək). LIHTCs are the lynchpin taxpayer-subsidy for production of new, deed-restricted, rent-capped housing units in California as well as for the acquisition and/or rehabilitation of existing affordable units.

LIHTCs support lucrative fees for developers and tax benefits for investors, but little research exists that breaks down the impacts of these complex arrangements for taxpayers and for the housing construction workforce. This latter question has important implications for policy makers, in light of the fact that other types of public construction expenditures often trigger minimum labor standards like prevailing wage, and recent research has revealed staggering levels of economic inequality and housing burdens facing the workers who build California's housing.²

This report is structured as follows:

We first review the history and structure of LIHTCs—including how deals are structured, how credits are allocated, how investors and developers benefit, and how various government and tax authorities are involved.

The next section delves into data from housing developments that have been awarded \$2.4 billion in federal and state LIHTCs in the first half of 2020, focusing on units being built in coastal metropolitan areas. Notably, half of the units subsidized with 2020 tax credits have no requirements for labor standards for construction workers beyond minimum wages.

A case study of a high-volume LIHTC developer illustrates how taxpayer subsidies have enabled some to amass great wealth, even as LIHTC policies are reinforcing patterns of economic distress among California's residential construction workforce.

Ultimately, while there is ample justification to incentivize the construction of affordable housing units through the tax code, this report examines whether current LIHTC policies are exacerbating economic inequality and undermining efforts to strengthen the residential construction workforce.

We conclude with a discussion on how a deliberate strategy to link public expenditures through the tax code to construction workforce development could serve California's vital interest in achieving the dual imperatives of increased affordable housing supply and reduced demand for subsidized housing.



What Are Low Income Housing Tax Credits (LIHTCs) And How Do They Work?

The Low-Income Housing Tax Credit (LIHTC) was authorized through the Tax Reform Act of 1986 to give private investors an incentive to make equity investments in affordable rental housing construction, preservation, and renovation.

Two types of nonrefundable tax credits are allocated by the federal government and are administered and controlled by states. These credits are generally referred to as 9% and 4% credits. Each number refers to the approximate percentage that is multiplied against a project's "qualified basis" to determine the amount of credits that will be awarded to the project. The qualified basis of a project is the development costs, minus land acquisition costs and certain non-depreciable "soft" costs such as interest on permanent loans and application fees, multiplied by the fraction of units that will have affordability restrictions.

Once awarded, the affordable housing developers can then exchange the tax credits for funding from investors for their projects ("tax credit equity"). By providing credits that can be used to reduce the tax burdens of investors, the LIHTC program subsidizes the production and preservation of housing with rents that are capped to be affordable to lower-income households.³

The quantity of 9% federal credits is capped and is awarded by the states to affordable housing developers through a competitive process twice a year. States with larger populations, such as California, get the most tax credits to allocate. In 2019, California's ceiling for federal 9% tax credits was \$111.5 million.⁴ However, because project owners and investors can take the annual credit each year for ten years, California effectively awarded over \$1.1 billion in federal tax credits. The 2019 9% credits allowed recipients to develop a total of 3,851 affordable rental housing units, 82% of which were new units.



The 4% tax credits derive from a project's use of tax-exempt bond authority and are limited only by the bond cap available in California. These tax credits are non-competitively awarded to all projects that meet threshold criteria. In 2019, California awarded \$241.6 million in federal 4% tax credits to 155 projects for 16,619 low-income units, which translates to over \$2.4 billion in federal tax credits over ten years. In contrast to the 9% credits, only 29% of the units in projects supported with 4% credits in 2019 were new construction.

Recognizing the high costs of developing housing in California, the state legislature has also authorized a state low-income housing tax credit program to augment the federal program. The state credit is only available to a project which has previously received, or is concurrently receiving, an allocation of federal credits. These are one-time credits taken within four years of a project being placed into service. In 2019, the state authorized \$100.8 million in state credits to 25 projects that were already receiving 9% or 4% federal credits. The state authorized an additional \$500 million in state credits for new construction projects to be allocated to developers in 2020.

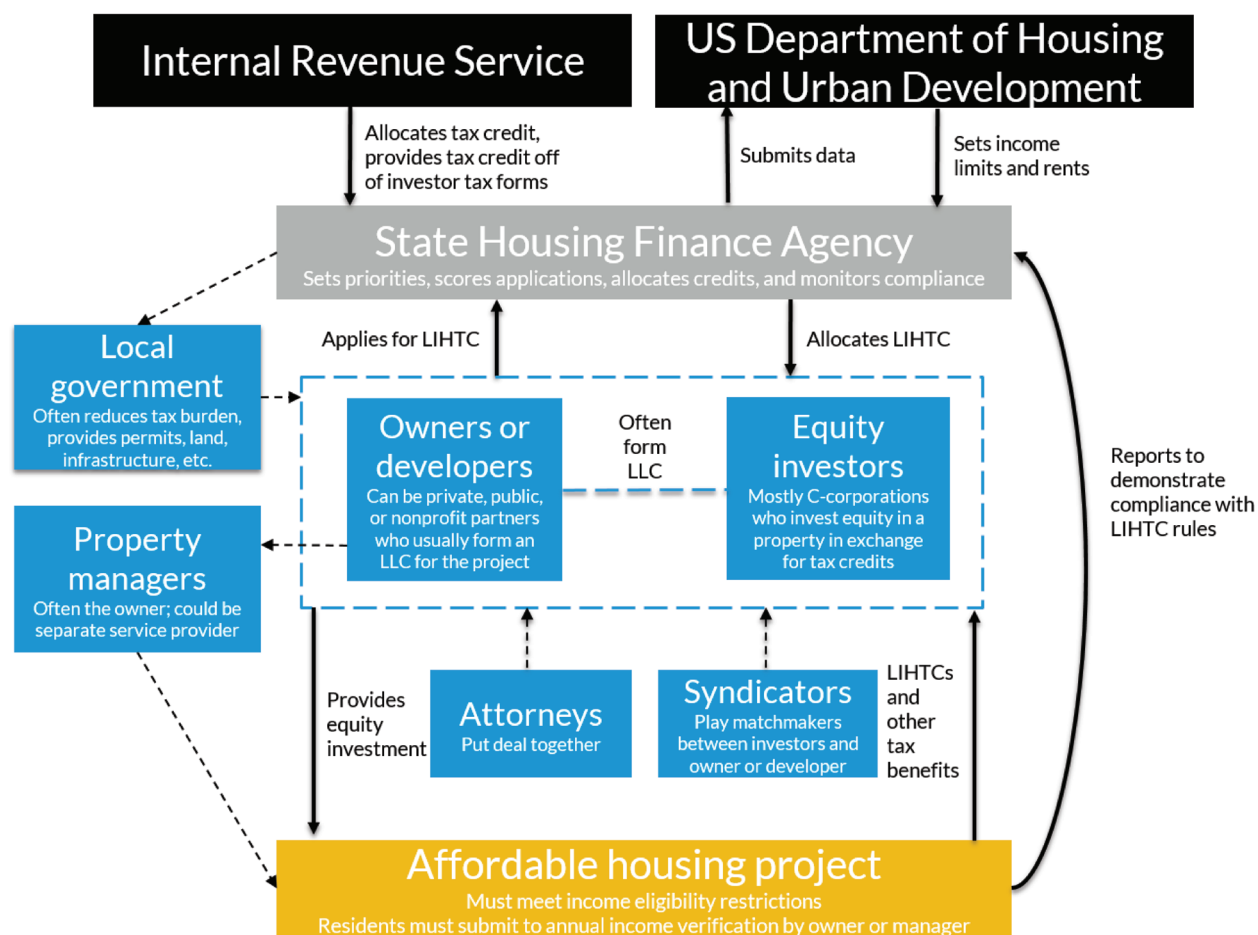


In addition to the federal tax credits claimed for ten years and the state tax credits claimed over four years, affordable housing project developers and investors can claim the general tax savings earned by deducting the depreciation of the rental property plus operating losses. Specific investors may benefit further by receiving Community Reinvestment Act credit for investments from regulated lending institutions.

The intricacies of the federal and state tax codes and LIHTC regulations result in complex webs of transactions and relationships. For example, in order to enjoy the tax benefits of a “welfare” exemption from property taxes or “certificated state credits,” for-profit entities either need to form—or partner with—a nonprofit entity. Small management fees are paid by for-profit general partners to non-profit entities in order to reap much larger tax savings.

Figure 1 is a simplified schematic of the parties that play a role in realizing the central transaction in a LIHTC deal: capital for housing production in exchange for reduced tax liabilities.

Partners in a LIHTC Deal



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Note: Each color denotes one of the four layers of a LIHTC deal: the federal government (black), the states (gray), the project developers (blue), and the project itself (yellow). Solid lines indicate a component common to all LIHTC projects; dotted lines indicate more complex partnerships that may or may not exist depending on how the deal is structured.

Source: Payton Scally, et al. (2018)⁵



In exchange for these significant credits against future tax liabilities—costs which are ultimately borne by taxpayers—affordable housing projects are subject to a 15-year investment regulation compliance period and must meet affordable rent requirements for a period of at least 30 years. In California, the affordable rent requirement period is 55 years. Site visits are conducted by the state every three years to verify that occupant income limits and apartment rent restrictions are met, promised amenities are being delivered, and physical conditions of the development and its units meet certain standards. Investors in projects that fail to comply with the regulatory agreements can lose their tax benefits. Regulatory violations also can lead to California assessing “negative points” against project’s development team members’ future tax credit applications.

In total, California allocated \$3.5 billion of federal tax credits and \$101 million of state tax credits to fund 223 projects in 2019. More than half of the rental units supported by the 2019 LIHTCs were in existing housing developments. LIHTCs awarded by California in 2019 supported new construction of about 8,000 rental housing units.

Over the past decade, LIHTC subsidies account for average annual production of 7,700 units of affordable housing in California⁶, and over half of total annual production of new units affordable to lower income households.⁷

LIHTCs awarded by California in 2019 supported new construction of about 8,000 rental housing units.

Over the lifetime of the federal LIHTC program, the California Tax Credit Allocation Committee (CTCAC) has helped fund new construction of over 225,000 units or acquisition and rehabilitation of almost 190,000 additional units.⁸

Increasingly, Federal and state policymakers are turning to LIHTCs as a tool to help drive housing production. The governor and the California legislature passed budgets in 2019 and 2020 that increased the volume of state LIHTCs by \$500 million. The CTCAC began to allocate the “new” state credits in 2020 to new construction projects funded with the non-competitive 4% federal tax credits.⁹



California's Tax Credit Allocations & Labor Standards

Smart Cities Prevail tabulated data from budgets for 107 new affordable housing projects that were awarded federal and state tax credits by the CTCAC in the first half of 2020.¹⁰ The projects will be supported by about \$1.9 billion in federal LIHTCs and over \$500 million in state LIHTCs.

Corporations will enjoy reduced federal and state income tax liabilities in excess of the equity capital raised to fund new affordable housing in California. As shown in Table 1, developers will trade the federal and state tax credits to private investors for equity capital, \$1.77 billion and \$417 million, respectively. Each \$1 of state low-income housing tax credit will yield only \$0.80 of funding for low-income housing projects, on average. Federal credits were expected to yield \$0.94 per credit, which means that federal tax credits are 18% more efficient than state tax credits in generating funds for affordable housing production.¹¹

From the perspective of an investor in a project's state tax credits, \$800,000 committed to an affordable housing project can result in a \$1 million reduction in the investor's California state income tax liabilities. The simple yield of the investor's commitment is 25%.¹²

The excess tax credits that bolster a small number of corporations' bottom lines¹³ come at a public cost that is not recorded on projects' development budgets. Subsidizing affordable housing with state LIHTCs come at an added future taxpayer cost of \$14,500 per unit supported; the additional publicly born cost of federal credits is \$12,200 per unit in current-dollar terms.¹⁴

Despite the fact that state and federal LIHTCs clearly are public subsidies of construction, current laws specify that LIHTCs do not trigger any requirement to pay construction workers who build the housing anything beyond minimum wages. Prevailing wages and apprentice employment standards apply to LIHTC projects only when developers tap certain other federal, state, or local public funds.¹⁵

Of the 9,259 new units to be built with credits approved in the first half of 2020, applications for 4,765 units (51%) indicated no legal requirement to pay construction workers anything more than minimum wages.¹⁶ Of those projects, over half of the units (2,600) are in coastal metropolitan areas where

Table 1: Tax credits allocated the first-half 2020 to California new construction low-income housing projects

	Federal LIHTCs	State LIHTCs
a. Tax credits allocated (\$ millions)	\$1,880	\$522
b. Project capital raised from credits (\$ millions)	\$1,767	\$417
c. Project capital per \$1 of tax credit (b ÷ a)	\$0.94	\$0.80
d. "Excess" tax credits (a minus b)	\$113	\$104
e. Total number of apartments to be subsidized	9,259	7,195
f. Public cost of "excess" credits per unit (d ÷ e)	\$12,200	\$14,500

Source: California Tax Credit Allocation Committee applications

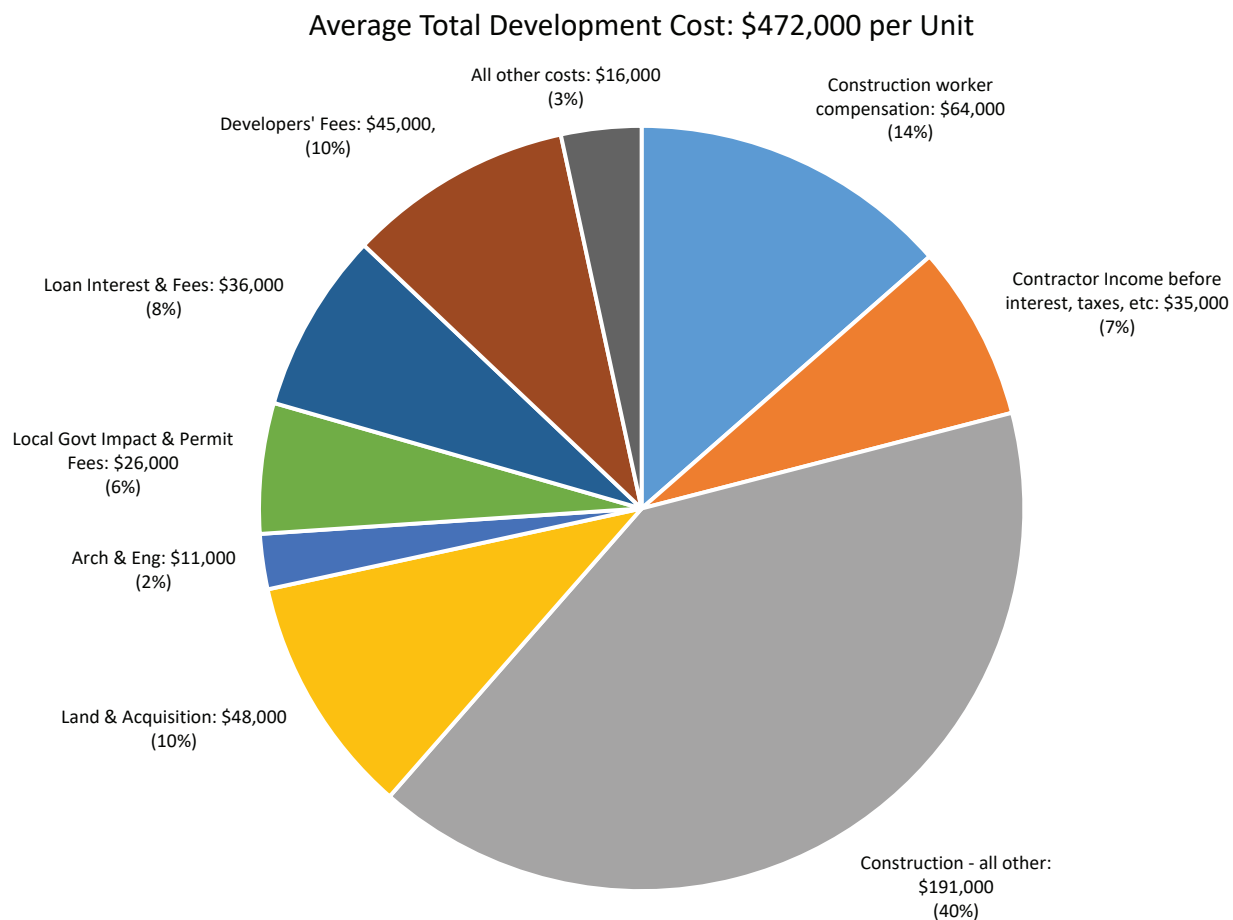


construction worker families (CWFs) are 50 percent more likely than all non-construction families to be considered Very Low Income: Los Angeles-Long Beach-Anaheim; San Francisco-Oakland-Hayward; and San Diego-Carlsbad (see Case Study 2 below). The analysis below focuses on those projects.

LIHTC applications allow tabulation of total and average costs of various fees, finance costs, architecture and engineering, and the total construction budget. The US Census Bureau’s Economic Census of Construction provides construction contractor receipt and expenditure data from which we estimated construction worker compensation costs and contractor earnings before interest, taxes, depreciation and amortization as a percentage of construction contract receipts.¹⁷

Housing industry players who are relatively well off will claim a slice of the housing production budgetary “pie” that is more than twice as great as that of construction workers. As pictured in Figure 2, landowners (land & acquisition), construction firm owners (contractor income), real estate developers (developer fees), and banks (loan interest & fees) together will capture 35% of every budgeted dollar. Costs of those categories sum to \$164,000 per unit, on average. An additional \$22,000 per unit in “excess” federal and state tax credits, or publicly subsidized tax savings, will benefit shareholders of several dozen high-income corporations without appearing in project budgets. Construction worker total compensation costs, including all legally mandated and voluntary fringe benefits are estimated to be only \$64,000 per unit (14 percent of total budgeted project costs).

Figure 2: Project Cost Components for coastal projects with minimum labor standards (average per unit)



Source: 2020 California Tax Credit Allocation Committee project application budgets & Smart Cities Prevail (2017). Dollar amounts and percentages are rounded.



CASE STUDY:

Caleb Roope's The Pacific Companies

California-allocated Low Income Housing Tax Credits have helped build millions in wealth for one Idaho man; construction workers on his urban coastal projects likely earn less than a housing wage.

The following case study suggests the LIHTC program is reinforcing economic inequality and undermining the State's interest in advancing housing construction workforce development.

Caleb Roope, the sole shareholder of Pacific West Communities, Inc. (PWC) and Pacific West Builders, Inc. (PWB) has developed and built 8,000 apartments in California since 2010. LIHTCs awarded by the California Tax Credit Allocation Committee (CTCAC) have helped finance 9 out of every 10 units completed by Roope's companies over the past decade.¹⁸

Combined financial statements for PWB and PWC for the years 2014-2016 show that net earnings before income taxes were 12.6% of total revenues¹⁹ (see Table 2). Mr. Roope withdrew \$34 million out of the two firms' retained earnings between 2014 and 2016 and withdrew another \$5.9 million from PWC's retained earnings in 2017. The companies remained well capitalized despite the large withdrawals. Shareholder equity in the two companies totaled \$42.4 million at the end of 2016.

Table 2: Excerpts from Pacific West Communities' and Pacific West Builders' financial statements

<i>Pacific West Communities and Pacific West Builders Combined</i>	2010 Jan-Jun	2014 Jan-Dec	2015 Jan-Dec	2016 Jan-Dec	2017 Jan-Dec
Revenue: Total		\$70.2	\$97.6	\$102.0	
Construction (% RevTot)		88%	88%	89%	
Developer fees (% RevTot)		7%	8%	6%	
Retained Earnings - Beg of Yr	\$13.7	\$42.0	\$41.4	\$40.2	
Net income (loss) before taxes	\$3.3	\$9.7	\$11.2	\$13.1	
Withdrawals by Stockholders	-\$0.3	-\$10.3	-\$13.5	-\$10.8	
Retained Earnings - Period End	\$16.7	\$41.4	\$39.1	\$42.4	
Total Equity	NA	\$41.4	\$39.1	\$42.4	
Net income before taxes % of RevTot		13.8%	11.5%	12.8%	
<i>Pacific West Communities, Inc.</i>	2010 Jan-Jun	2014 Jan-Dec	2015 Jan-Dec	2016 Jan-Dec	2017 Jan-Dec
Revenue: Total		\$8.3	\$11.4	NA	\$7.5
Developer Fee Revenue (% RevTot)*		56%	66%	NA	68%
Retained Earnings - Beg of Yr		\$23.8	\$17.4	NA	\$32.7
Net income (loss) before taxes		\$4.2	\$8.0	NA	\$2.9
Withdrawals by Stockholders		\$0.0	\$0.0	NA	-\$5.9
Retained Earnings - Period End		\$28.0	\$28.9	NA	\$29.7
Total Equity		\$28.0	\$28.9	NA	\$29.7
Net income before taxes % of RevTot		51%	70%	NA	39%

*NA = not available

Source: The Pacific Companies. Responses to RFPs submitted to the Cities of Fullerton, Elk Grove (2016), and East Palo Alto (2018).²⁰
Smart Cities Prevail calculated the values in the italicized cells.



A Pacific West Communities' project in Santa Clara County provides a window into how public subsidies through LIHTC are likely contributing to the construction industry's workforce development problems and housing cost burdens for construction families.

On this project, a San Mateo County-based contractor hired workers to install drywall on one of the Pacific Companies' Gilroy projects in 2017. According to the State of California Labor Commissioner's Office, the contractor paid three workers between \$25 and \$30 per hour. Enforcement officials found that the contractor did not provide the workers for all legally required rest and meal breaks, failed to pay a worker the premium rate for overtime hours, and unlawfully reduced a worker's wages without prior notice.²¹

Unstable jobs that pay \$25 per hour will not sustain a family in California's costly coastal metropolitan areas. In 2017, residents of the counties of Santa Clara and San Mateo, the nation's number 3 and number 4 most expensive counties needed full-time equivalent wages between \$43 - \$58 an hour to afford two-bedroom Fair Market Rent apartments.²²

In 2020 California has allocated \$35.6 million in state LIHTCs to Roope's development company, the second highest amount awarded to any developer. Total budgeted construction costs across all of Roope's 2020 LIHTC-funded projects are \$288 million.^[i] The projects' developer fees total near \$46 million. Thanks to the the State LIHTC subsidies, investors in Roope's California tax credits will contribute \$28 million in capital in exchange for credits against \$35.6 million in California income tax liabilities. Millions in excess state tax credits over and above Roope's projects' needs for equity amount to \$14,800 per unit in additional taxpayer-borne costs.

Table 3: Tax credits allocated in the first-half 2020 to Pacific West Communities' new construction projects

	Federal LIHTCs	State LIHTCs
a. Tax credits allocated (millions)	\$165	\$35.6
b. Project capital raised from credits (millions)	\$151	\$28.3
c. Project capital per \$1 of tax credit (b ÷ a)	\$0.91	\$0.80
d. "Excess" tax credits (a minus b)	\$14	\$7.2
e. Total number of apartments to be subsidized	821	490
f. Public cost of "excess" credits per unit (d ÷ e)	\$17,700	\$14,800

Source: California Tax Credit Allocation Committee applications

With combined construction and developer fee budgets of \$333 million^[ii] and an average profit rate of 12.6 percent, it is reasonable to forecast that this year's crop of taxpayer subsidized LIHTC projects will increase Mr. Roope's wealth by tens of millions of dollars over the long run.

As the next section details, the workers who will build most of the Pacific Companies' new units are unlikely to fare nearly as well. Roope's 2020 project applications indicate that 732 out of 821 units (82%) will be built without prevailing wage requirements. Of those, 421 units will be built in the counties of San Diego, San Mateo, and Santa Clara, where four-in-ten construction worker families are Very Low Income, as shown below in Case Study 2.

[i] This amount includes \$15 million budgeted as construction hard cost contingency funds, which may not be used.

[ii] Figure based on the sum of Pacific West Communities' projects' budget line items for total new construction, "hard cost" contingency, and total developer costs. Limited to budgets for projects that the CTCAC indicated had been awarded credits.



CASE STUDY 2: California's Struggling Housing Construction Workforce

California's affordability crisis can only be addressed if lower income families' rents decline and/or incomes increase. If taxpayer-subsidized incentives have been good for corporate investors and builders such as Caleb Roope, leading them to contribute their money and efforts to housing production, we also need to assess what is happening to the construction workforce on which they rely.

Using microdata from the U.S. Census' American Community Survey, we coded construction worker families according to whether or not their incomes fell below U.S. Department of Housing and Urban Development (HUD) low-income ("LI") or very low-income ("VLI") thresholds.²³ We estimate that 340,000 California construction worker families (CWFs) are low income, of which over 200,000 are very low income, as shown below in Table 2.

Table 2: Construction worker families are Low Income at higher-than-average rates

Family Income Statistics	Construction Worker Families 1-8 persons	Non-Construction Families, 1-8 persons
Median Family Income	\$61,500	\$72,800
Median Family Size	4	2
Median Income, Family of 4	\$64,000	\$100,000
Low Income (LI) Families	340,000	4,485,000
LI Families (% of Families)	53%	44%
Very Low Income (VLI) Families	219,000	2,754,000
VLI Families (% of Families)	34%	27%
Number of families, size 1-8 persons	641,000	10,262,000

Source: Analysis of 2018 ACS 1-Year file, IPUMS-USA, excluding families without county of residence identified. Estimates are rounded.²⁴

While California construction workers are disproportionately low income, there is also an important racial dimension to these figures. Seventy percent of California construction workers are non-white and/or Hispanic. Table 3 shows that families of construction workers who are people of color are significantly more likely than non-construction families to be VLI.

Table 3 People of Color &/or Hispanics are Low Income at higher-than-average rates

Family Income Statistics	Construction Worker Families of Color	Non-Construction Families of Color	Non-Construction Families, Non- Hispanic Whites
Median Family Income	\$55,000	\$62,000	\$90,000
Median Family Size	4	3	2
Median Income, Family of 4	\$57,100	\$80,900	\$141,800
Low Income (LI) Families	340,000	2,879,000	1,439,000
LI Families (% of Families)	60%	51%	33%
Very Low Income (VLI) Families	185,000	1,911,000	2,754,000
VLI Families (% of Families)	39%	32%	19%
Number of families	473,000	5,925,000	4,336,000

Source: Analysis of 2018 ACS 1-Year file, IPUMS-USA, excluding families without county of residence identified. Estimates are rounded.²⁵



Construction workers and their families are most likely to be low-income in California's coastal areas, where the state's housing affordability crisis is most acute. Median construction worker earnings are under 80% of the median for all employed male workers' earnings in the major coastal metropolitan areas.²⁶ Table 3 shows that in California's largest metropolitan areas, construction workers are more likely than non-construction workers to be LI or VLI.²⁷

While median family incomes in northern California are higher than those in the two major southern California metropolitan areas, construction workers in Bay Area metro areas are rent-burdened at a rate that is about 25 percent higher than the areas' overall rate.²⁸

Table 3 Construction worker families are Low Income at higher-than-average rates in Coastal Metro Areas

Metropolitan Statistical Area/ Family Income Statistics	Construction Worker Families 1-8 persons	Non-Construction Families 1-8 persons
<i>Los Angeles-Long Beach-Anaheim</i>		
Median Family Income	\$52,000	\$70,000
LI Families (% of Families, by category)	66%	49%
VLI Families (% of Families, by category)	45%	27%
<i>San Diego-Carlsbad</i>		
Median Family Income	\$54,000	\$72,000
LI Families (% of Families, by category)	62%	46%
VLI Families (% of Families, by category)	43%	28%
<i>San Francisco-Oakland-Hayward</i>		
Median Family Income	\$80,000	\$101,000
LI Families (% of Families, by category)	53%	41%
VLI Families (% of Families, by category)	35%	26%
<i>San José-Sunnyvale-Santa Clara</i>		
Median Family Income	\$76,600	\$120,000
LI Families (% of Families, by category)	57%	34%
VLI Families (% of Families, by category)	43%	23%

Source: Analysis of 2018 ACS 1-Year file, IPUMS-USA. Estimates are rounded.²⁹

As noted earlier in this brief, developers of new housing need not require any construction labor standards beyond minimum wages in order to qualify for LIHTC subsidies. Fully half of the units that will be built in California in 2020 will not have such standards in place. Of those, over half will be built in the high-cost coastal metropolitan areas where disproportionate numbers of construction worker families could qualify to join the thousands of families who apply for a unit in each LIHTC supported new housing development.³⁰



How Reform of LIHTC Could Maximize Value for California Taxpayers

LIHTCs play a key role in boosting California's affordable housing supply—particularly in coastal cities where gaps between rents and incomes of lower-income families are significant. However the data in this brief suggests while these instruments of indirect housing finance clearly provide significant taxpayer funded windfalls for investors and developers, they reinforce income inequality, including in regions where the state's housing affordability crisis is most acute.

Specifically, our breakdown of LIHTC project applications and budgets revealed that despite being reliant on millions of taxpayer subsidy dollars, half have no labor standards beyond minimum wage, 35% of the total dollars spent are destined for white-collar industry players, and only about 14% goes to construction worker total compensation. Our analysis of family incomes and HUD income limits found that construction families are eligible for housing subsidies at higher-than-average rates.

In other words, while LIHTCs are likely a necessary tool for supplying lower income Californians with more affordable housing, they tend to reinforce patterns of income inequality that make subsidized affordable housing more necessary. In this respect, they differ dramatically from other types of publicly subsidized construction, such as public works.

Linking California taxpayer subsidies for housing production to labor standards for construction workers is important for at least two reasons. First, as discussed above, if California increases the number of construction workers—as it must—without decreasing the percentage of “very low income” construction families, the need for more taxpayer housing subsidies like LIHTCs will continue



to grow. Second, the housing industry will not attract productive California workers in the numbers that are necessary to attack California's housing supply challenge if compensation remains uncompetitive.

Smart Cities Prevail's 2019 publication “Rebuilding California: The Golden State's Construction Workforce Reckoning,” documented how a decades-long productivity decline in California's housing construction sector has inhibited the development of sufficient housing supply. To meet the state's ambitious housing production goals, construction of new housing production must triple relative to recent average annual rates, and the state would need at least 200,000 new construction workers.³¹

Lack of collective action has contributed to homebuilding's slide into being a lower-wage, low-productivity industry. Contractors compete *today* in a cut-throat competitive environment for short-term contracts, but investments in workforce practices and standards only yield *future* payoffs if their competitors don't poach the workers they train. The outcome is under-investment in the industry's workforce. For behavior to change, an intervention is necessary



to take labor costs that yield deferred benefits to employers out of competition.³²

California's prevailing wage law has been addressing this need on California's public works projects for almost 90 years. The policy's architects recognized that contractor importation of transient, lower-wage labor for taxpayer funded construction undermines a region's wage base. By taking pay out of competition, prevailing wage requirements drive contractors to compete on efficiency and maximizing value to the public rather than low labor standards.³³

California's prevailing wage law *directly* promotes construction workforce training. Covered construction contracts require the employment of apprentices from local, state-approved programs as well as tax-exempt contributions to training funds that are based on the number of hours worked by all of the covered contractors' employees.

Young workers are attracted to apprenticeship-based pathways to middle-class construction careers. Thanks in part to California's prevailing wage law, 10,000 - 20,000 Californians annually register in construction trades apprenticeship programs. Thousands more join wait lists for entry. One rigorous study found that completion of government-approved apprenticeship programs increased career earnings by \$240,037 and fringe benefits by \$61,496, for a total of \$301,533 (2012 dollars).³⁴ California's Workforce Development Board found that construction workers who had recently exited state-approved apprenticeship programs earned a median quarterly wage that was more than twice the sector's average wage statewide.³⁵ Peer-reviewed research has found that states with prevailing wage laws not only increase aggregate statewide construction worker incomes and construction employer payments for health and retirement benefits—they dramatically reduce reliance on social assistance programs—which, like LIHTC, are ultimately funded by taxpayers.³⁶

Trades apprentices were common in homebuilding in the 1970s, when California reached its highest historical levels for housing production.³⁷ Apprentices are now almost exclusively found on nonresidential projects and on residential job sites funded by direct state or local grants and loans. If California's LIHTC regulations were reformed to incentivize prevailing wage and apprentice utilization, the number of apprentices working for residential contractors could as much as double. Such an increase in demand could also absorb many of the Californians who are on apprenticeship program waiting lists.³⁸

Linkage of LIHTCs to labor standards would benefit the broad public interest in other ways. Researchers have found an association between state prevailing wage laws and greater net tax revenues from construction families. Construction workers' net federal income taxes are nearly \$1,200 higher in states with prevailing wage laws than in states with either no law or a weak law, a considerable finding given that state prevailing wage mandates affect only about one-fifth of the total output of the construction industry.³⁹

Expansion of prevailing wage coverage would also reduce costly construction accidents. States with prevailing wage laws have 7%-10% lower occupational nonfatal injury and illness rates and generally have lower fatality rates than non-prevailing wage states.⁴⁰ California construction is a major source of severe occupational injury and fatalities in California.⁴¹ Expansion of the scope of coverage of prevailing wages could reduce costly accidents.

If more LIHTC-financed housing construction workers enjoyed prevailing wage standards it would help to address racial disparities in public health access and outcomes and would reduce construction worker enrollment in Medi-Cal. Fewer than half of California construction workers are covered by an employer or union plan, and nearly 1 in 3 construction workers of color are without health insurance coverage.⁴² Twenty-



two percent of construction workers are reliant on a taxpayer financed health plan, higher than the 18% rate for non-construction workers.⁴³

Even as this brief has documented the outsized taxpayer funded windfalls reaching LIHTC investors and builders, the question of cost often arises when labor standards enter into any discussion on the workforce side of the construction industry.

Methodological problems plague most of the reports that make claims about prevailing wage and construction costs.⁴⁴ The overwhelming consensus of peer-reviewed research has concluded that total construction costs are not affected by prevailing wage. Researchers have shown that direct and indirect public benefits of ‘high-road’ workforce strategies—including increases in productivity and efficiency and reduced reliance on other public programs—more than offset any increase in workers’ wages. And the case study of Caleb Roope’s Pacific West Communities shows the extent to which incentivizing a ‘low road’ construction model only exacerbates the economic inequality at the heart of California’s housing affordability crisis.

In an alternative scenario, the hundreds of workers who will work on PWC’s new projects could be paid family-sustaining wages. The projects could be sources

Researchers have shown that direct and indirect public benefits of ‘high-road’ workforce strategies—including increases in productivity and efficiency and reduced reliance on other public programs—more than offset any increase in workers’ wages.

of on-the-job training opportunities for scores of apprentices. Contractor contributions to portable fringe benefit plans could promote longer-term attachment of trained, productive workers to the housing construction sector. Hourly contributions to state-approved apprentice training programs could expand access to construction careers that provide middle-class standards of living, free of the need for housing and healthcare subsidies.



Conclusion

We set out in this report to describe the Low Income Housing Tax Credit, its cost to California taxpayers, and to ask who benefits and who is getting left behind. This brief documents that LIHTCs as presently designed overwhelmingly reward owners over workers. Private landowners, owners of development and construction firms, and shareholders in financial corporations capture a much larger percentage of the total budgeted costs of development and construction than construction workers' wages and fringe benefits. *Status quo* California construction labor standards leave over half of construction worker families qualified as low- or very low-income.

Existing laws and regulations that govern LIHTC-supported projects are detailed and prescriptive with respect to the characteristics of the physical buildings, targeted groups of tenants, and targeted project locations, but are silent about the working conditions, training, and compensation of construction workers. Through this omission, California state policy on LIHTCs diverges from other types of publicly funded construction by rewarding construction employers who invest minimally in workers. This leaves construction trades people who are essential to a future of improved housing affordability to struggle with California's cost-of-living crisis.

Given the rigorous and dangerous demands of construction work, fewer young Californians are attracted to careers building housing. But California's housing construction workforce challenge is not a problem of unwilling workers—building trades apprenticeships enroll thousands annually and have thousands more join their waiting lists. It is a problem of insufficient policy to ensure that public construction subsidies are also meeting the public's need to invest in developing and retaining skilled workers.

Every year, the award of LIHTCs for construction of thousands of housing units offer opportunities to nudge California's housing construction labor market away from dysfunction and towards greater productivity. If and when policymakers link LIHTCs to construction workforce development-promoting standards, they will have both attacked housing industry income inequality and promoted increased capacity within the Golden State to build the new homes Californians need.



APPENDIX:

The Pacific Companies' Financial Statement Excerpts

Pacific West Communities, Inc. and Pacific West Builders, Inc.

Combined Statement of Retained Earnings

For the Years Ended December 31, 2016 , 2015 and 2014

	2016	2015	2014
Retained earnings (deficit) - January 1	\$ 40,160,527	\$ 41,391,995	\$ 41,973,268
Net income (loss)	13,054,718	11,193,343	9,676,963
Withdrawals by Stockholders	(10,834,904)	(13,463,961)	(10,258,236)
Retained earnings (deficit) - December 31	<u>\$ 42,380,341</u>	<u>\$ 39,121,377</u>	<u>\$ 41,391,995</u>

For the Years Ended December 31, 2016 , 2015 and 2014

1. Basis of Combination

Pacific West Communities Inc. and Pacific West Builders, Inc. are both Sub Chapter S corporations wholly owned by Caleb Roope. Pacific West Communities, Inc. keeps its books on the tax basis while Pacific West Builders, Inc. keeps its books on the accrual basis (percentage of completion). Caleb Roope is engaged in the business of developing and building Low-Income Housing Tax Credit apartments and other related developments in the Western United States. These two entities are Mr. Roope's main two operating entities and operate closely on most projects. The developer of each project (Pacific West Communities, Inc.) will contract with a builder (Pacific West Builders, Inc.) for each project and since the owner of the two entities are the same the results of the contract negotiation can easily result in a contract that would not be considered arms length. As a result, the owner feels showing these two entities in combined financial statements is more informative than showing them separately.

Source: Combined Financial Statements, December 31, 2016, 2015 and 2014, submitted to East Palo Alto September, 14, 2018.

Images are excerpts from the Statements and associated Notes.

- Two distinct reports reached similar conclusions: McKinsey Global Institute, "A tool kit to close California's housing gap: 3.5 million homes by 2025," McKinsey & Company, October 2016, accessed via <https://www.mckinsey.com/featured-insights/urbanization/closing-californias-housing-gap>; Up for Growth National Coalition, "Housing underproduction in California." Washington, D.C.: Up for Growth National Coalition, 2018.
- The share of the construction sector's GDP that is captured by capital increased from 14 percent in 1998 to 23 percent in 2016. See McKinsey Global Institute, "A new look at the declining labor share of income in the United States." May 2019, pp. 30-31. Accessed via <https://www.mckinsey.com/featured-insights/employment-and-growth/a-new-look-at-the-declining-labor-share-of-income-in-the-united-states>. For a report on California construction worker earnings to housing prices, see John E. Husing, "Impact of California's Housing Prices on Construction Workers," 2019, accessed via <https://www.newgeography.com/content/006254-impact-californias-housing-prices-construction-workers>.
- For a critical assessment of whether or not the LIHTC program is an efficient way to subsidize housing for low-income households, see Michael D. Erikson and Bree J. Lang (2020), "Overview and proposed reforms of the low-income housing tax credit program." *Regional Science and Urban Economics*, Volume 80, January. <https://doi.org/10.1016/j.regsciurbeco.2018.07.002>.



- 4 California Tax Credit Allocation Committee, 2019 Annual Report. April 2020. Accessed via <https://www.treasurer.ca.gov/ctcac/2019/annualreport/2019-annual-report.pdf>
- 5 Payton Scally, Corianne, Amanda Gold, and Nicole DuBois. 2018. "The Low-Income Housing Tax Credit: How It Works and Who It Serves." Washington, D.C.: Urban Institute.
- 6 Author's tabulation of California Tax Credit Allocation Committee data retrieved via <https://www.treasurer.ca.gov/CTCAC/projects.xlsx>
- 7 The more precise estimate is 11,360 units per year. The author summed each local jurisdiction's reported number permits for the Very Low- and Low-Income categories and divided it by the number of years in the 5th Housing Element Cycle completed by 2019. See fn 4 for the source information.
- 8 Ibid.
- 9 California Tax Credit Allocation Committee, "New \$500 Million State Credit Resource." August 2019. Accessed via <https://www.treasurer.ca.gov/ctcac/programreg/2019/20190823/new-500-million-state-credit-resources.pdf>. TCAC will continue to allocate \$100 million in state credits as it has in prior years.
- 10 PDF copies of developers' applications were accessed via <https://www.treasurer.ca.gov/ctcac/2020/application.asp>.
- 11 A Congressional Research Service report updated recently wrote: "The market price of tax credits fluctuates, but in normal economic conditions the price typically ranges from the mid-\$0.80s to low-\$0.90s per \$1.00 tax credit... The investor can also receive tax benefits related to any tax losses generated through the project's operating costs, interest on its debt, and deductions such as depreciation." Keightley, Mark P. 2019. "An Introduction to the Low-Income Housing Tax Credit." RS22389 (updated February 27, 2019). Washington DC: Congressional Research Service.
- 12 The earliest that the state LIHTC can be applied by investors against their state income tax liabilities is for the tax year when the project is placed in service. If the investor's available credits exceed their state tax liabilities, the unused credit may be carried over to succeeding years until exhausted.
- 13 In 2017, state low income housing tax credits were claimed by a total of 36 corporations. See State of California Franchise Tax Board, Table C-7, Tax Credits Allowed All Corporations, Updated July 2, 2020. Accessed August 2020 via <https://data.ftb.ca.gov/California-Corporation-Tax/C-7-Tax-Credits-Allowed-All-Corporations/5guv-7bft>.
- 14 Credits claimed against future tax liabilities have a lower present value than shown here. Because state tax credits are one time and can be used within four years, we didn't feel confident estimating present value.
- 15 The definition of "public works," "public funds," and exemptions from prevailing wage coverage are found in California Labor Code section 1720. A 2005 prevailing wage coverage determination by the Director of the Department of Industrial Relations found that federal low-income housing tax credits were not included in the definition of public funds. See <https://www.dir.ca.gov/OPRL/coverage/year2005/2004-016.pdf>
- 16 See the 2020 California LIHTC Application, Part III, Section 5: Threshold Basis Limit. In unusual cases, the developer of a project that does not require a tax credit threshold basis limit adjustment may not respond "Yes" to the prevailing wage requirement question but may actually be bound by a state, local, or private funding source to pay prevailing wages. We corrected two cases where prevailing wages are required, but weren't indicated on the application. Time did not permit us to survey developers of all of the projects.
- 17 The 2007 and 2012 Economic Census of Construction provides detailed contractor receipt and expenditure data, based on governmental administrative records from hundreds of thousands of contractors nationwide and more detailed survey responses from roughly 150,000 contractors. Our estimates are based on analysis of California-specific data, contained in Smart Cities Preval "The Value of Linking Good Construction Jobs to California's Housing Reforms." (2017). Data for California from the 2017 Economic Census data will not be released until late 2020, but a preliminary nationwide table released in 2019 supports our previous estimate that construction worker compensation costs are only 22 percent of total construction contract receipts. See <https://www2.census.gov/programs-surveys/economic-census/data/2017/sector23/EC1723BASIC.zip>. When applying our 22% estimate to total construction costs, we included two budget lines: "total new construction cost" and "construction hard cost contingency." Construction worker compensation includes actual construction worker payroll estimates plus fringe benefit costs that were estimated based on construction worker payroll as a proportion of contractors' total employee payroll. The estimates are based on weighted averages of both multifamily residential contractors and specialty trade contractors. For comparison, see a simpler analysis of Economic Census data from 2012: Natalia Siniavskaia, "Home Building Census," December 2, 2015, Special Study for HousingEconomics.com, Chart 7. Accessed via <https://www.nahbclassic.org/generic.aspx?sectionID=734&genericContentID=248708&channelID=311>
- 18 See the project list included in Pacific West Communities, Inc.'s Statement of Qualifications submitted to Jackson, Wyoming April 24, 2020, pages 17-27. Accessed via <https://tetoncountywy.gov/DocumentCenter/View/13978/SMR-TPC?bidId=>
- 19 See financial statements at pages 59-67 of the Pacific Companies' response to a request for proposals dated September 14, 2018. Accessed via <https://www.ci.east-palo-alto.ca.us/DocumentCenter/View/4023>. Separate PWC and PWB financial statements for 2014 & 2015 were submitted to Elk Grove in 2016. Accessed via <http://elkgrovecity.org/common/pages/DisplayFile.aspx?itemId=4082466>. Combined statements for 2010 were available from a 2011 City of Fullerton document accessed via <https://www.cityoffullerton.com/civicax/filebank/blobdload.aspx?blobid=7178>
- 20 Pacific West Communities financial statements, contained in responses to requests for proposals from the cities of Fullerton, Elk Grove, and East Palo Alto, were accessed via the following URLs: <https://www.cityoffullerton.com/civicax/filebank/blobdload.aspx?blobid=7178>; <http://elkgrovecity.org/common/pages/DisplayFile.aspx?itemId=4082466>; and <https://www.ci.east-palo-alto.ca.us/DocumentCenter/View/4023>



- 21 Source: State of California Labor Commissioner's Office administrative records for case numbers 12-104343, 12-104213 and 12-104215. The project was located at 210 E. 10th Street, Gilroy, the site of Alexander Station, CTCAC Project Number CA-15-853, developed by Pacific West Communities, Inc.
- 22 2017 Housing Wages are from National Low Income Housing Coalition, "Out of Reach 2017," accessed via https://reports.nlihc.org/sites/default/files/oor/OOR_2017_0.pdf
- 23 The State of California relies on county-level HUD income limits for administering funding programs for subsidized housing developments. We merged FY 2018 HUD Income Limits by county with American Community Survey 2018 1-Year microdata. Income Limits were accessed and downloaded via <https://www.huduser.gov/portal/datasets/il/il18/Section8-FY18.xlsx>. The source <https://usa.ipums.org/>. We classified families' sizes using IPUMS' "famsize" variable. We identified and eliminated duplicate families with more than one construction worker. Families were assigned LI (80% of median family income) & VLI (50% of median family income) categorical variable values by matching family size with HUD Income Limits by household size and comparing IPUMS' "ftotinc" variable to the applicable income limit.
- 24 Our 2018 ACS sample was limited to families that include 1-8 persons, at least one of whom is aged 16-64 years-old who had worked within the prior 5 years. We excluded responses without identified county of residence. Persons not living with others related to them by blood, marriage/cohabitating partnership, or adoption are coded with family size of 1. Construction worker families include at least one person employed in a construction trade within the private construction industry who is not in school and who had positive earnings in the prior 12 months. The number of sampled family units is the number after application of analytic weights. When we further limited our sample to families of two or more persons, our estimated overall statewide median family income was \$86,900, which is reasonably close to the official U.S. Census Bureau 2018 ACS 1-Year estimate of \$86,165 (see Table B19119).

We chose families rather than households as the unit of analysis because some multi-family households are formed out of economic necessity rather than due to members' preferences. Also, HUD LI & VLI definitions, while they apply to multi-family households, are based on estimates of an area's median family income. We can see that income limits based on total income for a family comprised of only two-persons becomes the standard for households of 4 persons.

- 25 Our 2018 ACS sample was limited to families that include 1-8 persons, at least one of whom is aged 16-64 years-old who had worked within the prior 5 years. We excluded responses without identified county of residence. Persons not living with others related to them by blood, marriage/cohabitating partnership, or adoption are coded with family size of 1. Construction worker families include at least one person employed in a construction trade within the private construction industry who is not in school and who had positive earnings in the prior 12 months. The number of sampled family units is the number after application of analytic weights. When we further limited our sample to families of two or more persons, our estimated

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- 26 See U.S. Census Bureau, American Community Survey, Table S2411, 2018 ACS 1-Year Estimates. The major coastal metropolitan areas include Los Angeles-Long Beach-Anaheim, San Diego-Carlsbad, San Francisco-Oakland-Hayward, and San Jose-Sunnyvale-Santa Clara. Construction workers in California's inland and/or more rural regions have median earnings that approximate those for all male workers. Accessed via <https://data.census.gov>.
- 27 We confirmed the patterns depicted in Table 3 by analyzing the ACS 2018 5-Year microdata file. In fact, differentials between the VLI rates for construction worker families versus non-construction families grew, most likely because demand for construction increased significantly between 2014 and 2018. The decrease in construction demand resulting from the COVID-19 pandemic-triggered recession likely will push higher percentages of construction workers' families into the LI and VLI categories.
- 28 "Rent-burdened" means that a household's gross rent exceeds 30 percent of household income. Tabulations from our IPUMS-USA dataset found that between 50 and 53 percent of construction households in the San Francisco-Oakland-Hayward and San Jose-Sunnyvale-Santa Clara metro areas were rent burdened 2014-2018. The overall rate for the two metro areas, for similar households under the age of 65, was 42%. Our estimates are higher than the Census Bureau's rent burden estimate for the entire population, which includes older households that presumably are more housing-secure. See U.S. Census Bureau, Burdened Households, retrieved from FRED, Federal Reserve Bank of St. Louis. Accessible via <https://fred.stlouisfed.org/graph/?g=sZtL>
- 29 Our 2018 ACS sample was limited to families that include 1-8 persons, at least one of whom is aged 16-64 years-old who had worked within the prior 5 years. We excluded responses without identified county of residence. Persons not living with others related to them by blood, marriage/cohabitating partnership, or adoption are coded with family size of 1. Construction worker families include at least one person employed in a construction trade within the private construction industry who is not in school and who had positive earnings in the prior 12 months. The number of sampled family units is the number after application of analytic weights. When we further limited our sample to families of two or more persons, our estimated overall statewide median family income was \$86,900, which is reasonably close to the official U.S. Census Bureau 2018 ACS 1-Year estimate of \$86,165 (see Table B19119).



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- 30 See, for example, Ben Brazil, "Thousands interested in Irvine affordable housing complex as pandemic continues," *Los Angeles Times*, August 4, 2020. Accessed via <https://www.latimes.com/socal/daily-pilot/entertainment/story/2020-08-04/thousands-interested-in-irvine-affordable-housing-complex-as-pandemic-continues>
 - 31 https://www.smartcitiesprevail.org/wp-content/uploads/2019/01/SCP_HousingReport.0118_2.pdf
 - 32 Philips, Peter. 2003. "Dual worlds: the two growth paths in US construction." In *Building Chaos: An international comparison of deregulation in the construction industry*, by Gerhard Bosch and Peter Philips, 161-187. New York: Routledge.
 - 33 Prevailing wages "benefit the public through the superior efficiency of well-paid employees" and also serve the goal of protecting "employees from substandard wages that might be paid if contractors could recruit labor from distant cheap-labor areas." See *Lusardi Construction Co. v. Aubry* (1992) 1 Cal.4th 976, 4 Cal.Rptr.2d 837; 824 P.2d 643. As stated in the legislative findings for Labor Code section 1771.9 (Stats.2003, ch. 851, § 1), "[p]ayment of the prevailing rate of per diem wages to workers employed on public works projects is necessary to attract the most skilled workers for those projects and to ensure that work of the highest quality is performed on those projects." See Philips, *op. cit.*, pp 176-179 for evidence that construction industries in states with higher rates of collective bargaining (and strong state prevailing wage laws) employ workers with higher levels of education, have greater ratios of capital per worker, and install higher value of material per worker.
 - 34 Reed, Debbie; Albert Yung-Hsu Liu; Rebecca Kleinman; Annalisa Mastri; Davin Reed; Samina Sattar; and Jessica Ziegler. 2012. *An Effectiveness Assessment and Cost-Benefit Analysis of Registered Apprenticeship in 10 States*. Mathematica Policy Research. Accessed via https://wdr.doleta.gov/research/FullText_Documents/etaop_2012_10.pdf. The study was not limited to construction apprenticeships, but it is safe to say that construction apprenticeships, which are a large percentage of all apprenticeships, drove the results.
 - 35 California Workforce Development Board, "Workforce Metrics Dashboard Report 2018 AB 2148 Legislative Report." Accessed via <https://cwdb.ca.gov/wp-content/uploads/sites/43/2018/05/2148-Report-FINAL.pdf>
 - 36 Fenn, A., Li, Z., Pleites, G., Zorigtbaatar, C., & Philips, P. (2018). The Effect of Prevailing Wage Repeals on Construction Income and Benefits. *Public Works Management & Policy*, 23(4), 346–364. <https://doi.org/10.1177/1087724X18758340>
 - 37 Smart Cities Prevail, "Rebuilding California," *op. cit.*, pp. 23-24.
 - 38 This statement is based on our finding that half of the units to be built with 2020 LIHTCs do not appear to be bound to prevailing wage requirements. Our unpublished analysis of a sample of electronic certified payroll records from California LIHTC-financed projects that were bound to pay prevailing wages found that the projects employed apprentices. Our assertion that non-prevailing wage job sites rarely employ apprentices is based on observations from the field. Contractors not bound by prevailing wages do not publicly disclose whether or not they employ apprentices.
 - 39 Manzo IV, Frank; Alex Lantsberg; and Kevin Duncan. (2016) (b). *The Economic, Fiscal, and Social Impacts of State Prevailing Wage Laws: Choosing Between the High Road and the Low Road in the Construction Industry*. Illinois Economic Policy Institute; Smart Cities Prevail; Colorado State University-Pueblo.
 - 40 Duncan, K., & Ormiston, R. (2019). What Does the Research Tell Us about Prevailing Wage Laws? *Labor Studies Journal*, 44(2), 139–160. <https://doi.org/10.1177/0160449X18766398>. Midwest Economic Policy Institute. 2017. "The \$5 Billion Cost of Construction Fatalities in the United States: A 50 State Comparison."
 - 41 The construction trades account for one out of every 25 California jobs, but *one out of every five* serious workers' compensation insurance claims. The industry accounts for 16 percent of fatal workplace injuries. Smart Cities Prevail, "Rebuilding California," *op. cit.*, page 12 and fn 21 & 22 at page 46.
 - 42 Smart Cities Prevail analysis of the IPUMS-USA 2018 ACS microdata. By comparison, nearly two-thirds of non-construction workers reported coverage under an employer or union health insurance plan. The uninsured rate for all Californians is 9%.
 - 43 California construction's performance on these metrics is not normal. California construction employer plan coverage rates ranks 35th out of all of the United States, proximate in rank to Alabama, Colorado, Louisiana, Nevada, and Virginia. Smart Cities Prevail, "Rebuilding California," *op. cit.*, p. 17.
 - 44 For critiques of a methodology commonly deployed in think tank reports, see Duncan, Kevin. 2016. "The Wage Differential Method: Promising Construction Costs Savings with the Repeal or Weakening of Prevailing Wage Laws that Cannot be Delivered." Professor Dale Belman and Ph.D.-candidate Matt Hinkel have a draft manuscript that replicates to the extent possible a peer-reviewed study published in 2005. Belman and Hinkel show the earlier study suffers from methodological problems and grossly erroneous estimates of prevailing wage costs.





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