Assembly Bill 2829 (Ting): Moderate-Income Housing Welfare Tax Exemption

Subject: AB 2829 (Ting) creates a property tax exemption for qualified rental housing units with rents affordable to moderate-income households, with the goal of facilitating "missing middle" housing production.

Background: Existing law provides that low-income rental units and rental units for moderate-income seniors and individuals with disabilities that are owned and operated by nonprofit developers and other qualifying organizations (churches, hospitals, charitable funds, etc.) may be exempt from property tax under the welfare exemption, provided certain conditions and requirements are met.

AB 2829 would extend the property tax exemption—ranging from a partial exemption to a full exemption—to qualifying property owners who reserve eligible rental units in either existing or newly constructed multifamily developments for moderate-income households, i.e. for tenants in households earning between 80 percent and 120 percent of the area median income (AMI). In Alameda and Contra Costa counties, for example, a four-person household earning between $112,000 and $134,000 would qualify as "moderate-income." (See Attachment A for a moderate-income thresholds for all nine Bay Area counties.) The property tax exemption would apply on a per-unit basis; property owners could claim the exemption based on the percentage of the residential development reserved for moderate-income households. The exemption would sunset after 20 years.

In order to be eligible for the property tax exemption, the development would be subject to the following requirements:

- a deed restriction or other regulatory agreement with a public agency that provides that the rental units are reserved for moderate-income households.
- Moderate-income unit rents must be capped at 20 percent below the "fair market rent" for comparable newly-constructed units in the county. Fair market rent would be determined by a market study and certified by either a state or local agency involved in securing the moderate-income units, as described below. Annual rent increases must be limited to the percentage increase in AMI for the county in which the development is located.
- The development is either:
    1. Constructed on public land or funded, at least in part, from state or local resources, including low-income housing tax credits.
    2. Subject to a recorded agreement with a local agency that secures at least 20 percent of the development's units for moderate- and low-income households.
- The property is a multifamily (three units or more) rental housing development.

Discussion

California's housing crisis disproportionately affects low-income households, however many families considered middle income are also struggling to find housing at a price they can afford, particularly in the Bay Area. Those "missing middle" households—often considered households earnings between 80-120 percent AMI—have incomes that are too high to qualify for traditional affordable housing, but too low to pay average market-rate rents. This "caught in the middle" situation is the basis for the term "missing middle" for describing such households.

AB 2829 would create a tool to incentive the preservation and production of housing stock that can meet the needs of nurses, teachers, firefighters, and other missing-middle households. According to a 2019 Board of Equalization analysis of a substantially similar bill, the annual value of extending the welfare exemption to moderate-income rental units would be approximately $16,000 per development (not per unit). These cost savings to existing property owners and developers of new rental housing would help make income-restricted units more financially feasible.

Importantly, such savings for developers in the form of lower property tax would come at a cost to Bay Area cities and counties. However, given the substantially higher cost of directly subsidizing affordable housing and the serious challenge the Bay Area's middle-income community members face finding an affordable place to live, staff believes the bill's approach is a smart, cost-effective strategy.

Staff has another concern that without specific safeguards, the bill could unintentionally spur property owners to convert low-income rental units to units affordable to moderate-income households. To address this concern, staff recommends an amendment excluding from the new exemption low-income units or units that had been reserved for low-income households in the ten years prior to the moderate-income property tax welfare exemption claim.

Staff recommends a "support and seek amendment" position on AB 2829.

Recommendation: Support and Seek Amendment / ABAG Executive Board Approval
Support and Seek Amendment / MTC Commission Approval

Bill Positions:

Support	**Oppose**
BRIDGE Housing	None on file

Attachments: Attachment A: Bay Area "Moderate-Income" Thresholds

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"Moderate-Income" Limits for Bay Area Counties
(80% Area Median Income (AMI) – 120% AMI)

County	**80% AMI** (Four Person Household)	**120% AMI** (Four Person Household)
Alameda	$98,550	$134,050
Contra Costa	$98,550	$134,050
Marin	$129,150	$164,150
Napa	$79,500	$120,500
San Francisco	$129,150	$164,150
San Mateo	$129,150	$164,150
Santa Clara	$103,900	$157,700
Solano	$68,555	$102,850
Sonoma	$86,400	$111,950

Source: U.S. Department of Housing and Urban Development 2019 Income Limits