

Metropolitan Transportation Commission and Association of Bay Area Governments Joint MTC ABAG Legislation Committee

June 11, 2021

Agenda Item 4b

Update on Federal Housing Advocacy Strategy

- Subject:** Update on federal housing advocacy strategy, including support for housing production proposal that could unlock near term financing for tens of thousands of affordable housing units in California.
- Background:** Since 2016, ABAG and MTC have focused our federal housing advocacy on supporting the Low Income Housing Tax Credit Program (LIHTC) – which is California’s primary tool for financing affordable housing and preservation—and advocated for increased funding for those Department of Housing and Urban Development (HUD) programs that fund rental assistance and that provide cities and counties with resources to improve housing affordability and provide shelter and supportive services to our unhoused population. In addition, ABAG and MTC’s advocacy supports increasing the Bay Area’s share of flexible transportation program funding that, since 1997, MTC has leveraged to increase housing supply in transit-accessible areas. More recently, ABAG and MTC have expanded our advocacy to support a robust federal investment in resilience to protect our communities and critical infrastructure from climate threats.

Housing investment near the scale proposed in President Biden’s American Jobs Plan would be a once-in-a-generation investment that could transform the affordable housing landscape in the Bay Area, particularly if new investment is accompanied by a change to the LIHTC—described below— that would unlock financing for a long pipeline of affordable housing projects that are ready to go—thanks in large part to relatively new dedicated local and state housing funds—but are awaiting federal tax credit financing.

ABAG and MTC have joined with a number of our housing advocacy partners, including the California Housing Partnership and the Non-Profit Housing Association of Northern California (NPH), to engage our Bay Area congressional delegation and U.S. HUD to support the inclusion of this tax credit change in an infrastructure bill.

LIHTC Provision to Unlock Affordable Housing Financing

Our Bay Area housing partners estimate that a provision included in the bipartisan Affordable Housing Credit Improvement Act (S. 1136/H.R. 2573) to lower the bond test threshold for 4 percent LIHTCs from 50 percent to 25 percent could be transformational, enabling California to nearly double affordable housing production for the next two years. In California, LIHTCs are the single most important tool we have for building and preserving affordable housing. Federal LIHTCs come in two forms: 9 percent, which offer a deep subsidy but are capped, and 4 percent, which offer less of a subsidy but aren’t directly capped.

Since California has long been maxing out our 9 percent credit, the state’s strategy has been to make the 4 percent credit a better tool by 1) funding the state LIHTC program to augment the federal subsidy tied to 4 percent credits and 2) pulling together supplemental revenue sources, such as housing bond funding, that can be paired with a 4 percent credit to make a development project pencil. These efforts have been so effective that in recent years, California has been in the unusual position

of maxing out the affordable housing financing capacity of even the 4 percent federal credit, as described below.

Although there is no direct cap on the federal 4 percent LIHTC, federal tax-exempt private activity bond (PAB) caps end up placing a ceiling on the credits. To be eligible for a 4 percent credit, at least half of an affordable housing development's costs (land and building) must be funded from PABs. In previous years, this 50 percent threshold had not created a capacity issue, as PABs had been underutilized in California; in 2019 the state ended the year with \$1.2 billion in unused bond allocation. Today, the state's PABs are oversubscribed 3:1. This is largely a result of the influx in state and local affordable housing funding commitments and the resulting growth in the affordable housing project pipeline, which drives up the demand for bond allocations. The proposal to lower the bond-financed minimum threshold by half (from 50 percent to 25 percent), would thus *double* the 4 percent credit ceiling and thus nearly *double* the housing production financing capacity until the state's 4 percent credit affordable housing project pipeline—which was estimated in April 2021 at 20,000 units—has been built. After that, it is likely that California's housing production and preservation baseline could grow from the status quo, but it's unlikely that the state would max out the new artificial cap on an annual basis into perpetuity.

The Joint Committee on Taxation in 2020 estimated that the 18-month cost of this provision would be about \$7.6 billion. Given that resources are always limited, this would be a highly effective way to get more affordable housing on the ground.

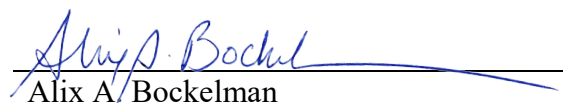
Other Housing Advocacy

In addition, our housing advocacy strategy as it relates to an infrastructure bill includes continued support for HUD housing grant programs as well as continued advocacy for new climate adaptation funding to protect our housing stock and infrastructure from sea level rise and other hazards. In addition, we are exploring opportunities to secure federal funds to provide seed capital funding for the Bay Area Housing Finance Authority.

American Jobs Plan Tracks with MTC and ABAG Priorities; Housing Support is Uncertain

It is encouraging that Biden Administration's American Jobs Plan framework, largely tracks with the priorities identified above; it proposes to grow the LIHTC program, provide a funding boost for HUD housing and rental assistance programs equivalent to more than four times HUD's annual budget, dedicate funding to resilience, and direct new resources to transportation, although detailed proposals have not yet been made public. That being said, increased federal support for housing is in no way certain. It is notable that the Republican counterproposal released on the May 27th excludes housing entirely from the infrastructure bill.

Attachments: None


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