

**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

DATE: April 21, 2015

TO: Honorable Members of the Rules, Elections and Intergovernmental Relations Committee

FROM: Sharon M. Tso 
Chief Legislative Analyst

Council File No.: 15-0002-S19
Assignment No. : 15-03-0209

SUBJECT: Resolution (Cedillo - Bonin) to support AB 35 (Chiu and Atkins) relative to increasing the amount of state Low Income Housing Tax Credits.

CLA RECOMMENDATION: Adopt the attached Resolution (Cedillo – Bonin) to include in the City’s 2015-16 State Legislative Program SUPPORT for Assembly Bill 35 (Chui and Atkins), which would increase the aggregate housing state credit dollar amount that may be allocated among low-income housing projects by \$300 million.

SUMMARY

The Resolution (Cedillo – Bonin), introduced March 17, 2015, notes that public investment is essential to addressing the affordable housing crisis in the state. It states that the decimation of federal and state funding for affordable housing contributes to a growing homeless population, increased demand for public safety nets, and unstable construction industry. The Resolution notes that the state Low Income Housing Tax Credit program was created in 1987 to leverage the federal tax credit program.

The Resolution highlights that existing law limits the total annual amount of state credit that may be allocated to \$70 million per year, indexed for inflation, while AB 90 (Chiu and Atkins) would authorize an increase in the state credit ceiling by \$300 million.

The Resolution concludes that the City of Los Angeles should support legislation that supports an allocation of additional state tax credits to leverage additional private and public investment for developing affordable housing. Therefore, the Resolution recommends that the City support AB 350 (Chiu and Atkins), which would for each calendar year, beginning in 2015, increase the aggregate housing credit dollar amount that may be allocated among low-income housing projects by \$300 million.

BACKGROUND

In 1986, Congress enacted the federal Low Income Housing Tax Credit (LIHTC) Program to provide the private market with an incentive to invest in affordable housing. The LIHTC Program offers two types of federal credits, 4% and 9% credits, which are awarded to developers of qualified projects. Developers sell the credits to investors to raise capital for projects to reduce the amount of debt that the developer would otherwise have to borrow, allowing developers to offer lower rents. In 1987, the state legislature authorized the state low income housing tax credit to augment the federal credit program.

The California Tax Credit Allocation Committee (TCAC) administers both the federal and state programs. According to TCAC, in California, the demand for housing tax credit has exceeded the

supply by a ratio of approximately two to one (2:1). Per TCAC, the state credit is only available to a rental project which has previously received, or is concurrently receiving, an allocation of federal credits. Eligible projects include new construction or existing projects that would be rehabilitated. State credits are only available for acquisition costs, when the project was previously subsidized and qualifies as “at risk” of being converted to market rate. Applicants for state credits are competitively scored and points are awarded for a range of items, including cost efficiencies, leveraging of funds, affordability, developer experience, energy efficiencies, and amenities. Projects receiving tax credits are subject to rent and income restrictions; long-term affordability compliance is ensured as regulatory agreements are recorded against the property.

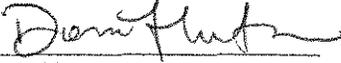
Support for AB 35 would be consistent with past support for new federal and state sources of funding to address the affordable housing shortfall.

Departments Notified

Housing and Community Investment Department

Bill Status

12/02/15	Bill Introduced.
01/22/15	Referred to Coms. On Rev. & Tax. And H. & C.D.
03/02/15	From committee chair, with author’s amendments: Amend, and re-refer to Com. On Rev. & Tax. Read second time and amended.
04/06/15	From committee chair, with author’s amendments: Amend, and re-refer to Com. on H. & Com. on H & C.D.
4/15/015	From committee: Amend, and do pass as amended and re-refer to Com. on Rev. & Tax.


 Dora Huerta
 Analyst

Attachments: Resolution (Cedillo – Bonin)
 AB 35 (Chiu and Atkins)

RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations, or policies proposed to or pending before a local, state, or federal governmental body or agency must first have been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, the creation of new affordable housing and the preservation and rehabilitation of existing affordable housing initially created through public investment is essential to address the affordable housing crisis in our state; and

WHEREAS, federal and state funding for affordable housing has been decimated, contributing to a growing homeless population, increased demand for public safety nets and an unstable construction industry; and

WHEREAS, the federal Low Income Housing Tax Credit Program, created in 1986, provides the private market an incentive to invest in affordable housing; and

WHEREAS, in 1987, the state legislature authorized a state Low-Income Housing Tax Credit Program to leverage the federal program and existing law limits the total annual amount of state credit that may be allocated to \$70 million per year, indexed for inflation; and

WHEREAS, AB 35 (Chiu and Atkins) proposes a significant increase to the state tax credit ceiling, increasing the aggregate housing state credit dollar amount that may be allocated by \$300 million beginning in 2015; and

WHEREAS, the City should support an allocation of additional state tax credits to leverage additional private and public investment for developing affordable housing for its residents;

NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2015-2016 State Legislative Program SUPPORT for AB 35 (Chiu and Atkins) which would for each calendar year beginning 2015 increase the aggregate housing credit dollar amount that may be allocated among low-income housing projects by \$300 million.

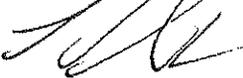
PRESENTED BY:


GILBERT A. CEDILLO
Councilmember, 1st District

SECONDED BY:



MAR 17 2015



ORIGINAL

AMENDED IN ASSEMBLY APRIL 6, 2015

AMENDED IN ASSEMBLY MARCH 2, 2015

CALIFORNIA LEGISLATURE—2015–16 REGULAR SESSION

ASSEMBLY BILL

No. 35

Introduced by Assembly Members Chiu and Atkins
(Principal coauthor: Assembly Member Wilk)
(Coauthor: Assembly Member Steinorth)

December 1, 2014

An act to amend Sections 12206, 17058, and 23610.5 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

AB 35, as amended, Chiu. Income taxes: credits: low-income housing: allocation increase.

Existing law establishes a low-income housing tax credit program pursuant to which the California Tax Credit Allocation Committee provides procedures and requirements for the allocation of state insurance, *personal* income, and corporation *income* tax credit amounts among low-income housing projects based on federal law. *Existing law, in modified conformity to federal income tax law, allows the credit based upon the applicable percentage, as defined, of the qualified basis of each qualified low-income building.* Existing law limits the total annual amount of the credit that the committee may allocate to \$70 million per year, as specified.

This bill, for calendar years beginning 2015, would increase the aggregate housing credit dollar amount that may be allocated among low-income housing projects by \$300,000,000, as specified. *The bill,*

under the insurance taxation law, the Personal Income Tax Law, and the Corporation Tax Law, would modify the definition of applicable percentage relating to qualified low-income buildings that meet specified criteria.

This bill would take effect immediately as a tax levy.

Vote: majority. Appropriation: no. Fiscal committee: yes.

State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. Section 12206 of the Revenue and Taxation Code
2 is amended to read:
- 3 12206. (a) (1) There shall be allowed as a credit against the
4 "tax," as described by Section 12201, a state low-income housing
5 tax credit in an amount equal to the amount determined in
6 subdivision (c), computed in accordance with Section 42 of the
7 Internal Revenue Code, ~~relating to low-income housing credit,~~
8 ~~Code~~ except as otherwise provided in this section.
- 9 (2) "Taxpayer," for purposes of this section, means the sole
10 owner in the case of a "C" corporation, the partners in the case of
11 a partnership, *members in the case of a limited liability company,*
12 and the shareholders in the case of an "S" corporation.
- 13 (3) "Housing sponsor," for purposes of this section, means the
14 sole owner in the case of a "C" corporation, the partnership in the
15 case of a partnership, *the limited liability company in the case of*
16 *a limited liability company,* and the "S" corporation in the case of
17 an "S" corporation.
- 18 (4) "Extremely low-income" has the same meaning as in Section
19 50053 of the Health and Safety Code.
- 20 (5) "Rural area" means a rural area as defined in Section
21 50199.21 of the Health and Safety Code.
- 22 (6) "Special needs housing" has the meaning as in paragraph
23 (4) of subdivision (g) of Section 10325 of Title 4 of the California
24 Code of Regulations.
- 25 (7) "SRO" means single room occupancy.
- 26 (8) "Very low-income" has the same meaning as in Section
27 50053 of the Health and Safety Code."
- 28 (b) (1) The amount of the credit allocated to any housing
29 sponsor shall be authorized by the California Tax Credit Allocation
30 Committee, or any successor thereof, based on a project's need