Fiscal Year: 2020-21
Business Unit: 0968
Department: California Tax Credit Allocation Committee
Priority Number: 1
Budget Request Name: 0968-004-BCP-2020-GB
Program: 0840-California Tax Credit Allocation Committee
Subprogram:

Budget Request Description: State Tax Credit Program Expansion

Budget Request Summary: The California Tax Credit Allocation Committee (TCAC) requests permanent funding for the administration’s proposal that provided limited-term positions through 2021-22 related to the $500 million Governor’s Budget Housing Proposal. The Associate Governmental Program Analyst (AGPA) positions were approved in the Development Section as part of the 2019-20 Governor’s Budget to process applications to allocate the additional state tax credits.

In addition, TCAC requests 3.0 additional AGPA positions in the Compliance Section to carry out the Federal Internal Revenue Code (IRC) for projects awarded allocation of the additional $500 million in state tax credits.

The total request for $649,000 in 2020-21, $1,446,000 in 2021-22, and $1,723,000 in 2022-23 ongoing will provide additional resources for the expansion of the State Tax Credit Program.

Requires Legislation: ☐ Yes ☒ No
Code Section(s) to be Added/Amended/Repealed:

Does this BCP contain information technology (IT) components? ☐ Yes ☒ No
If yes, departmental Chief Information Officer must sign.
Department CIO Name:
Department CIO Signature:
Signed On Date:

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project Number:
Project Approval Document:
Approval Date:

If proposal affects another department, does other department concur with proposal?
☐ Yes ☐ No

Attach comments of affected department, signed and dated by the department director or designee.

Prepared By:
Date:
Reviewed By:
Date:
Department Director:
Date:
Agency Secretary:
Date:

Department of Finance Use Only

Additional Reviews: Capital Outlay:☐ ITCU:☐ FSCU:☐ OSAE:☐
Department of Technology:☐

PPBA: Susan Wekanda

Date submitted to the Legislature: January 10, 2020
BCP Fiscal Detail Sheet

**Budget Request Summary**

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**Operating Expenses and Equipment**

- 5301 - General Expense: 0 12 36 44 44 44
- 5302 - Printing: 0 2 5 6 6 6
- 5304 - Communications: 0 9 27 33 33 33
- 5306 - Postage: 0 2 5 6 6 6
- 5320 - Travel: In-State: 0 54 60 62 62 62
- 5322 - Training: 0 3 9 11 11 11
- 5324 - Facilities Operation: 0 12 36 44 44 44
- 5326 - Utilities: 0 3 9 11 11 11
- 5340 - Consulting and Professional Services - Interdepartmental: 0 45 135 165 165 165
- 5346 - Information Technology: 0 0 3 11 11 11
- 5368 - Non-Capital Asset Purchases - Equipment: 0 21 0 0 0 0

**Total Operating Expenses and Equipment**

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**Total Budget Request**

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**Fund Summary**

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**Total All Funds**

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**Program Summary**

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### Personal Services Details

#### Positions
- 5393 - Assoc Govtl Program Analyst

#### Total Positions

#### Salaries and Wages
- 5393 - Assoc Govtl Program Analyst

#### Total Salaries and Wages

#### Staff Benefits
- 5150350 - Health Insurance
- 5150450 - Medicare Taxation
- 5150500 - OASDI
- 5150600 - Retirement - General
- 5150800 - Workers’ Compensation
- 5150900 - Staff Benefits - Other

#### Total Staff Benefits

#### Total Personal Services
### A. Budget Request Summary

The 2019-20 Governor’s Budget includes an increase of $500 million in state tax credits for Low-Income Housing Tax-Credit (LIHTC) new construction projects that pair with the 4 percent tax credit program, with a $200 million set-aside for a California Housing Finance Agency’s (CalHFA’s) Mixed-Income Program to target households with incomes not typically served by the state’s housing programs. The administration’s proposal provided limited-term funding from TCAC’s special fund totaling $586,000 for 4.0 Associate Governmental Program Analyst (AGPA) positions in 2019-20, $1,144,000 for 8.0 positions in 2020-21, and $279,000 for 4.0 positions in 2021-22 to process applications for an allocation of the supplemental state housing tax credits and for related workload.

TCAC requests the limited-term AGPA positions be made permanent in the Development Section. These positions are needed to process applications for the allocation of the additional $500 million in state tax credits, to carry out core and continuing functions, and administer federal and state mandates of the LIHTC program.

In addition, TCAC requests 3.0 additional AGPA positions in the Compliance Section to carry out the Federal Internal Revenue Code (IRC) and State of California legislation that passed in 2019. The positions would require at least a one year of training before to conduct the compliance monitoring on the increased projects due to the additional resources for housing in the state of California.

This request does not impact the General Fund as the program is funded by special funds. Government Health and Safety Code, Section 50199.9(d), allows TCAC to establish and collect fees to pay the costs of monitoring projects with allocations of tax credits for compliance with federal and state law.

The total request for $649,000 in 2020-21, $1,446,000 in 2021-22, and $1,723,000 in 2022-23 ongoing will provide additional resources for the expansion of the State Tax Credit Program.

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### B. Background/History

TCAC administers both a federal and a state low-income housing tax credit program. These programs encourage private investment in rental housing development for low and very low income families and individuals. With the passage of the Tax Reform Act of 1986, Congress created the federal LIHTC Program. The LIHTC provisions comprise the longest single section of the IRC. This program helps private developers/owners create and preserve affordable housing and raises project equity by providing tax
benefits to investors who hold an ownership interest in the property. Congress made the LIHTC Program permanent with the passage of the Omnibus Budget Reconciliation Act of 1993. Over the years, the LIHTC Program has become the primary funding source for the development of affordable rental housing throughout the country. California housing tax credits authorized by Chapter 1138, Statutes of 1987, provide State-level investor tax benefits, as well as supplement the federal tax credit. The state tax credit is only available to projects receiving an allocation of federal credits.

TCAC has helped fund the construction of over 430,000 total units since its inception, including more than 14,000 in 2017, 19,700 in 2018, and nearly 9,600 as of July 2019. In California, construction of affordable housing continues to be in high demand. In most areas of California housing development is not keeping pace with economic and population growth. With over two million California households spending excessive proportions of their income on housing, California must encourage more affordable housing construction.

A report by McKinsey Global Institute states that California needs 3.5 million homes built by 2025 to meet housing needs. Governor Newsom has made the housing crisis one the state's top priorities. The 2019-20 California State Budget Bill provided TCAC with a new resource, $500 million in state low income housing tax credits. With the additional state tax credits, applications are expected to increase significantly.

### Resource History

*Dollars in thousands*

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### C. State Level Considerations

The federal tax credits for low-income housing developers are provided to encourage the private sector to acquire, rehabilitate, and construct low-income rental housing.
From 1987 through 2018, TCAC allocated more than $38 billion federal and state tax credits. The allocations will result in the development of approximately 430,000 total units of rental housing throughout the state.

A 2002 Little Hoover Commission report states that: “Among the most basic of human needs is a place to call home. And nowhere in the United States is this need harder to satisfy than in California. The lack of affordable housing is so severe that it threatens the health and welfare of thousands of Californians, as well as the state’s long-term prosperity”. The report goes on to state that: “The impact of the State’s housing shortage is felt most profoundly by low-income Californians who struggle to keep a roof over their heads. Among low-income renters, about two-thirds pay more than half of their in-come for housing and 91 percent pay more than the recommended 30 percent.” The federal LIHTC Program is essential in meeting low-income renters’ housing needs in California.

Housing is a statewide issue and a lack of affordable housing directly contributes to the increased homelessness seen across the state. To address these crises, the Administration has made significant investments and policy changes through a multi-pronged approach in the Governor’s Budget that include incentives to increase housing production and additional resources to provide access to shelter and services to individuals and families with immediate need. Housing California’s low-income workforce population enhances the state’s economic strength. An affordable, quality home provides a stable foundation from which families can succeed in the state’s economy.

The additional positions do not affect other departments and will allow TCAC to accomplish its mission and comply with federal mandates.

D. Justification

Expansion of State Tax Credit Program

California is in the midst of a housing crisis due to decades of historical underproduction of supply when compared to demand. Of the estimated 200,000 units of housing that are needed annually merely to keep up with population growth, only 113,000 units were permitted in 2017. Since 2007, fewer than 750,000 units were permitted, accounting for only 40 percent of the projected need.

The LIHTC programs are the state’s primary sources of financing to produce affordable housing. Nearly all affordable housing projects built in the state receive some form of tax credit. The proposed expansion will dramatically magnify the impact of the current state program, which is currently authorized at $97 million (increased with inflation from
a base of $70 million starting in 2002).

The $500 million expansion in state tax credits for LIHTC new construction projects pair with the 4 percent tax credit program rather than the competitive 9 percent federal tax credit program. The current state tax credit program allocates only 15 percent of authority available to projects that pair with the lesser utilized 4 percent program. Rather than covering additional costs of costly 9 percent program projects, this investment can help make new 4 percent credit projects viable with underutilized federal authority. The Budget allows for the $500 million resource to continue annually. There is a $200 million set-aside for California Housing Finance Agency’s (CalHFA’s) Mixed-Income Program, which will target households with incomes not typically served by the state’s housing programs. This population presents an opportunity for significant housing development.

Workload to Administer Expanded Program

To administer the proposed program expansion, TCAC requires additional positions in the Development Section to complete the associated workload. The program currently has six analysts processing applications for existing programs (four additional staff process documentation of the finished housing projects and issuance of the tax credit forms). It was previously expected that application volume would increase incrementally as awareness and understanding of the redesigned state tax credits increased (see Projected Outcomes). However, as of August 2019, based on the level of inquiries from stakeholders and affordable housing developers, there is a general awareness and understanding of the $500 million additional resources, and developers are already preparing project financings that will include the new state tax credit resources. Staff anticipates the full $500 million will be awarded to project applications prior to the end of 2020. Additionally, staff expects strong demand to continue in 2021 and beyond as developers utilize this new resource to build more, much-needed affordable housing for the state’s low-income populations, and working to decrease homelessness in California. The $500 million state credit is significant in helping to fund the millions of housing units needed now and in the future, as California’s population continues to increase.

TCAC is actively working towards implementing the cost containment and housing production measures required to continue funding the $500 million state credits. Therefore, the request is made to grant permanent status to the four additional Development Section analyst positions in 2019-20. To assure federal compliance and properly maintained properties, CTCAC must perform federally-mandated compliance monitoring functions on the increased volume of projects referenced above. The Compliance Section positions require at least one year of training prior to traveling to conduct the compliance monitoring. The 3.0 permanent Compliance Section positions for 2020-21 would allow sufficient time to complete the required training to coincide with
the required the compliance monitoring on the increased volume of projects resulting from the additional resources referenced above for housing in the state of California.

E. Outcomes and Accountability

Please see Projected Outcomes below.

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<td>19</td>
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F. Analysis of All Feasible Alternatives

Alternative #1. Provide permanent funding in the Development Section for the AGPA positions already approved in the administration’s proposal to process applications for an allocation of the supplemental state housing tax credits and for related workload. TCAC believes there will be an ongoing need for resources to support financing and construction of affordable housing for California’s low-income populations. Additionally, provide permanent funding for 3.0 Compliance Section AGPA positions to complete at least 1 year of the required training to conduct the compliance monitoring on the increased projects resulting from the supplemental state housing tax credits and for related workload.

Alternative #2. Contract with a professional company to perform the duties state staff would be performing. This alternative would be more costly than having the appropriate state employee staffing level. The salaries of those in the private sector in this industry are well above state pay scales.

Alternative #3. Continue with current staffing. This alternative would cause CTCAC to fail in meeting its federal legal requirements upon State administering entities and will risk the loss of tax credits that the State could allocate by violating the terms of IRC Section 42(m)(1)(B)(iii) and IRS regulation 1.42.5(c)(2). Failure to comply with IRS Regulations could result in: (1) lawsuits brought against CTCAC by property residents that have previously been granted credits; (2) the inability to allocate current and future years’ tax credits. Thereby reducing the amount of affordable housing units developed throughout California; (3) the IRS auditing the California State Program; and (4) an adverse impact on the State economy due to a decline in housing construction.
G. Implementation Plan

| TCAC will hire 4.0 AGPA Development Section positions authorized in 2019 to process applications and 3.0 AGPA Compliance Section positions in 2020 to conduct the compliance monitoring on the increased volume of projects resulting from an allocation of the supplemental $500 million state housing tax credits and for related workload. |

H. Supplemental Information

| N/A |

I. Recommendation

| Alternative #1 |

Provide permanent funding in the Development Section for the AGPA positions already approved in the administration’s proposal to process applications for an allocation of the supplemental state housing tax credits and for related workload. TCAC believes there will be an ongoing need for resources to support financing and construction of affordable housing for California’s low-income populations. Additionally, provide permanent funding for 3.0 Compliance Section AGPA positions to complete at least 1 year of the required training to conduct the compliance monitoring on the increased projects resulting from the supplemental state housing tax credits and for related workload. |