

Funding Affordable Homes through California's Redevelopment Process – An Innovative and Successful Funding Model

As the largest state in the nation, California also has some of the greatest housing needs. California is home to seven of the nation's ten most expensive homeownership markets and six of the nation's ten most expensive rental markets.¹ A full-time minimum wage earner would not be able to afford even a typical studio apartment in any metro area or county in the state.² In addition to the policy tools used in the rest of the country, however, practitioners in California have access to an innovative funding stream for the development and preservation of affordable homes: a dedicated portion of tax increment revenue from redevelopment areas throughout the state that has supported the development or preservation of more than 98,000 homes for low- and moderate-income Californians since 1993.³

How does the redevelopment process support affordable housing?

Since passage of the 1945 California Community Redevelopment Act (later renamed the Community Redevelopment Law), local jurisdictions have had the authority to establish redevelopment agencies that make investments – such as construction of streets and sidewalks and expansion of water/sewer capacity – to promote revitalization and attract private capital in blighted areas that would otherwise be vulnerable to continued disinvestment and deterioration. As with tax increment financing programs in other states, redevelopment activities within the targeted project areas are supported by the increases in property taxes that flow from increased property values during the life of the project. (Under state law, a portion of the increased property taxes continues to be passed on to schools and other local taxing authorities.) At the conclusion of the redevelopment period – typically 30 or 40 years – the taxing jurisdictions resume receipt of 100 percent of the tax revenue.

Unique to California, however, the redevelopment law includes specific affordable housing requirements. In every redevelopment area, 20 percent of the incremental tax revenue must be set aside to support housing affordable to low- and moderate-income families.⁴ According to estimates from the Legislative Analyst's Office, annual proceeds from the set-aside average around \$1 billion, which is deposited in a Low and Moderate Income Housing Fund for use by localities that have established a redevelopment project to achieve the goals and objectives set forth in the housing element of their comprehensive plan.

¹ San Francisco, San Jose, Santa Ana, Santa Cruz, San Luis Obispo, Napa, and Oxnard all ranked among the 10 most expensive homeownership markets in the U.S. in 2009, with median home prices ranging from \$353,000 in Oxnard to \$625,000 in San Francisco. San Francisco, Santa Cruz, Santa Ana, Oxnard, San Jose, and Los Angeles were among the 10 most expensive rental markets. Source: Center for Housing Policy. 2010. *Paycheck to Paycheck*. Available at: <http://nhc.org/chp/p2p/>.

² Analysis based on California's minimum wage of \$8.00/hour in 2010. Source: National Low Income Housing Coalition. 2010. *Out of Reach*. Available at: <http://www.nlihc.org/oor/oor2010/>.

³ Housing California. 2011. *Talking points on the governor's proposal to eliminate redevelopment*. Available at: http://www.housingca.org/site/DocServer/Redevelopment_talking_points_for_website.pdf?docID=381.

⁴ Redevelopment agencies are authorized to use the 20 percent set-aside to “acquire property, rehabilitate or construct buildings, provide subsidies for low- and moderate-income households, or preserve public subsidized housing units at risk of conversion to market rates.” Source: Legislative Analyst's Office. 2011. *The 2011-12 Budget: Should California End Redevelopment Agencies?* Available at: http://www.lao.ca.gov/analysis/2011/realignment/redevelopment_020911.aspx.

How are the set-aside funds used to support affordable housing?

Under the Community Redevelopment Law, the affordable housing set-aside may be used to support a broad array of housing activities. With cuts in the federal housing budget looming, and cuts to the state housing budget already underway, this dedicated revenue stream is one of the few remaining sources of funding for development of new affordable homes for renters and owners. Grants or loans available through the set-aside enable developers to fill financing gaps for proposed developments and bring to market projects that might not otherwise be financially feasible. The availability of gap financing also allows developers to successfully leverage other funding sources, such as federal and state tax credits or HOME program dollars, which require local matching funds.

In addition to gap financing for new development, proceeds from the 20 percent set-aside may be used to support a variety of activities that provide direct assistance to low- and moderate-income families. For example, some communities provide downpayment assistance to first-time buyers or offer home rehab and repair programs for existing homeowners. Local jurisdictions also provide ongoing rental assistance with set-aside proceeds, as well as emergency rent relief to low-income families.

Snapshot of Low and Moderate Income Housing Fund Activity

Since 1993, redevelopment agencies have helped to develop or rehab more than 98,000 affordable homes.⁵ In fiscal year 2007-2008 alone, the most recent period for which reports are available from the California Department of Housing and Community Development, more than 16,400 households benefited from assistance from the Low and Moderate Income Housing Fund. Specific activities during this period include:

- Development of more than 9,300 new or “replacement” affordable homes⁶
- Subsidy assistance for some 1,200 households
- Substantial rehab of more than 1,080 existing affordable units and other rehab and repair of an additional 1,576 units
- Activities to increase, preserve, or maintain some 870 mobile homes
- Preservation of nearly 150 units affordable to very low income households
- Other assistance for more than 2,200 additional units⁷

Notably, some 7,000 elderly households benefited from Low and Moderate Income Housing Fund expenditures in fiscal year 2007-2008, and nearly half of expenditures – 49 percent – supported housing affordable to very low-income households.⁸

⁵ Housing California. 2011. *Talking points on the governor’s proposal to eliminate redevelopment*. Available at: http://www.housingca.org/site/DocServer/Redevelopment_talking_points_for_website.pdf?docID=381.

⁶ The Community Redevelopment Law requires redevelopment agencies to replace any low- and moderate-income unit that has been removed from the market due to redevelopment activities in which the agency was involved with a comparable unit within four years.

⁷ California Department of Housing and Community Development. 2009. *California Redevelopment Agencies – Fiscal Year 2007/2008: Housing Activity by Source of Funds*. Available at: http://www.hcd.ca.gov/hpd/rda/07_08/ex_f-4_07-08.pdf.

⁸ Creswell, Cathy E. 2009. *Annual Redevelopment Financial Report on Housing Activities during Fiscal Years 2006-07 and 2007-08*. Department of Housing and Community Development Memorandum. Available at: http://www.hcd.ca.gov/hpd/rda/07_08/exec_memo_fy06-07_fy07-08.pdf.

What are the impacts of California's affordable housing set-aside?

California's ability to address current and future demand for affordable homes depends on the continued availability of this dedicated funding source. Without the creation of a new funding stream, loss of this innovative program would result in an immediate reduction in the number of households that could be served by state housing assistance – a number that already falls far short of the present need. In addition, a portion of new projects currently in the pipeline would undoubtedly fall through. Those that could arrange alternative financing would likely need to target higher income levels in order to be financially feasible.

Without the ability to use the set-aside funds as gap financing to make rental housing preservation and new construction deals financially feasible, California's use of the federal low-income housing tax credit would also be greatly compromised in the future, resulting in fewer units being built, particularly for the lowest income families, and the loss of federal dollars that flow into the State from the use of 4 percent tax credits. Four percent tax credit awards in 2009 supported projects that account for more than 5,200 new affordable units (roughly half the amount made available in previous years), many of which relied on essential gap financing available through the redevelopment set-aside.⁹ In 2010, 19 of 50 projects that received 4 percent tax credits were financed in part with redevelopment funds, as were 50 of 75 projects that received a 9 percent tax credit award.¹⁰ Other activities supported by the set-aside would also be affected. For example, rehab assistance would likely be reduced in many jurisdictions, leaving low-income or elderly homeowners unable to complete repairs on their own and vulnerable to unsafe or inadequate housing conditions.

Finally, elimination of redevelopment funds and the loss of the redevelopment set-aside would have a ripple effect on the broader economy. According to estimates from the U.S. Department of Housing and Urban Development (HUD), every \$1 million invested in affordable housing activities generates roughly 18 new jobs.¹¹ In fiscal year 2007-2008, Low and Moderate Income Housing Fund expenditures reached \$1.52 billion, suggesting that – in addition to the direct beneficiaries of housing assistance – some 27,160 California residents benefitted from jobs created as a result of the Fund. Without the affordable housing set-aside funds or a viable replacement, most of these jobs would disappear.

What is innovative about California's affordable housing set-aside?

The whole purpose of redevelopment activities is to provide the basic infrastructure needed to attract private-sector investment, facilitating reinvestment that leads to stronger and healthier communities. One byproduct of this process, however, is higher land prices, which makes housing less affordable. California's 20 percent set-aside of incremental tax revenue for affordable housing helps to address the tension between local economic development goals and the continued demand for affordable homes by tying economic growth to increasing support for low- and moderate-income housing.

⁹ California Tax Credit Allocation Committee. 2010. *2009 Annual Report: Report on the Allocation of Federal and State Low Income Housing Tax Credits in California*. Sacramento, CA: California State Treasurer.

¹⁰ Pavao, William. 2/15/2011. Testimony before the California Senate Redevelopment and Affordable Housing Committee.

¹¹ HUD estimates include direct, indirect, and induced job growth, and are based on activity supported by the HOME Investment Partnerships Program (HOME). Similar to the Low and Moderate Income Housing Fund, HOME funds may be used for a broad array of affordable housing activities, although income targeting requirements limit awards through the HOME program to households with incomes up to 80 percent of the area median.

Outside of California, affordable housing is sometimes listed as one of many activities that can be funded with incremental property tax revenues from tax increment financing districts. But because of the intense competition for tax increment revenues, affordable housing often loses out to other purposes. By requiring that 20 percent of tax increment revenues be used for affordable housing, California ensures that redevelopment helps achieve rather than undermine the state's affordable housing goals.

Project profile

San José's Paseo Senter development provides affordable rental homes for 218 families, including 26 units for special needs residents. A winner of the 2010 HUD Secretary/AIA National Housing & Community Design Award of Excellence, the Paseo Senter development also includes childcare and Grandparent centers, a community room and computer room, and a library and Native American cultural center. Paseo Center's location on an active bus route and close to a school and medical clinic provides residents with access to an array of neighborhood amenities. The project was supported with a Low and Moderate Income Housing Fund loan of \$12.9 million from the City of San José; City funds were leveraged at a ratio of 5.3 to 1 to make the development possible.

Source: San José Housing Department. *City of San Jose Redevelopment-Funded Affordable Housing Examples*. Available at: http://www.sjhousing.org/depart/pdf/SJ_Case_Studies.pdf.