Date: December 30, 2020

To: Thomas B. Modica, City Manager

From: Oscar W. Orca, Director of Development Services

For: Mayor and Members of the City Council

Subject: Report on External Funding for Affordable Housing

At its January 7, 2020 meeting, the City Council considered placing a bond measure on a future election ballot to fund affordable housing. The City Council declined to move forward at that time and requested staff to research alternative funding sources available to the City through State and federal dollars for affordable housing. Staff have completed that research and have not found external funding other than one-time monies related to COVID-19 that are available and being pursued.

Development Services staff reviewed a 2019 report prepared by Keyser Marston Associates regarding available funding sources for housing, as well as new State or federal funds that became available during 2020. This review did not identify any source of State or federal funds available for affordable housing construction. However, the review confirmed that the City would be able to increase its access to State and federal funds if additional local funds were available as matching funds.

Federal Sources

The primary federal funding source for affordable housing is the Low-Income Tax Credit, which is credited directly to the developer of affordable housing. These federal credits are administered through the California Tax Credit Allocation Committee. The relative value of these tax credits has declined as federal taxation rates (and, thus, the need for offsetting credits) have fallen.

Other federal funds such as Community Development Block Grant (CDBG), HOME, and ESG dollars accrue directly to the City to fund programs and investments, including housing and homelessness, to benefit low and moderate-income persons. These funds are combined with the City’s local Long Beach Community Investment Corporation (LBCIC) dollars as the City’s primary source of affordable housing and housing for the homeless. Federal dollars also fund housing choice vouchers, which are administered through the City’s Housing Authority.

State Sources

The City has seen some recent improvement in the amount of State assistance toward affordable housing. These funds include a state tax credit to developers, various competitive funding programs through the Department of Housing and Community Development (HCD), as well as direct non-recurring funding to address housing for the homeless. Recent City applications for State funding include the SB 2 Permanent Local Housing Allocation (PLHA),
which is not competitive, and the CalHome program. The City expects to receive approximately $17,000,000 in PLHA funds over five years and was recently awarded $4,900,000 in CalHome program funds. The State also administers a housing trust matching program, which is a potential source of additional funds to the City if additional local dollars were invested into the trust fund. The program provides up to $5,000,000 in dollar for dollar matching funds to local housing trust funds.

Other Existing and Potential Funding Programs

The Inclusionary Housing Ordinance recently adopted by the City Council will harness private development to provide approximately 100 to 150 affordable housing units annually without direct public subsidy. Additionally, the program may provide in-lieu fees of up to $2,000,000 per year once the program is fully phased-in. These fees would be put into the City’s Housing Trust Fund and used to subsidize additional affordable housing units.

Enhanced Infrastructure Financing District (EIFDs) and Community Reinvestment Authorities (CRIA) are tools recently authorized by State legislation, which would allow the City to undertake redevelopment-like activities including the financing of affordable housing. These tools have not been broadly implemented and require the consent of other taxing authorities (such as the County, special districts, etc.), as well as the impacted property owners. Theoretically, an EIFD or CRIA would allow the City to accumulate tax-increment to be invested in improved infrastructure as well as affordable housing. Due to substantial start-up costs no estimates are available for the potential benefit of these tools.

A documentary transfer tax increase is another measure called for in the 2017 Affordable and Workforce Housing Study Group recommendations. A documentary transfer is paid on real estate transactions based on the value of the property being sold. This is a distinct tax, different from the document record fee recently enacted by the State, which provides limited funds for affordable housing development. The City receives approximately $2,300,000 in documentary transfer tax each year that is deposited in the General Fund and used as general revenue for the City’s overall budget. Other cities such as Culver City and Los Angeles levy a considerably higher documentary transfer tax of $4.50 per $1,000 value compared to the $0.55 per $1,000 value rate in Long Beach and most California cities. This tax is paid only at the time a property is sold. Most recently, the City of San Jose placed Measure E on the March 2020 ballot, the now voter-approved measure is expected to raise $70,000,000 annually for affordable housing in San Jose.

An increase in the document transfer tax in Long Beach could yield up to $18,000,000 annually in revenue. This revenue would be volatile as it is correlated to the level of real estate transactions and to housing prices. Imposition of the higher tax, like a bond measure, would require a vote of the electorate with the required margin dependent on whether the new tax was general or specific in nature of the use of funds.

Need

The City is in the process of updating its Housing Element, which will include a more complete analysis of housing needs. However, the Everyone Home report provides the following
estimation of need based upon the goal of the task force, at that time, of creating 2,000 additional low-income units, 200 permanent supportive units, as well as shelter and storage expansions:

<table>
<thead>
<tr>
<th>Estimated Funding Need to Meet Goals (In Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalize the City's Housing Trust Fund. Local funds are critical to leveraging the resources of other public agencies including the County, State and federal resources such as the Low-Income Housing Tax Credit (LIHTC) as administered by California's Tax Credit Allocation Committee.</td>
</tr>
<tr>
<td>2,000 Low-Income Units</td>
</tr>
<tr>
<td>200 Permanent Supportive Housing Units</td>
</tr>
<tr>
<td>Purchase of buildings to support shelter opportunities and other programming</td>
</tr>
<tr>
<td>Resource the coordination and oversight of housing and homelessness citywide, including data infrastructure and support. (Annually)</td>
</tr>
<tr>
<td>Prevention, retention, flexible subsidies, 24x7 outreach, and other health and support services. (Annually)</td>
</tr>
<tr>
<td>Landlord incentives/Homeless Incentive Program for precariously housed. (Annually)</td>
</tr>
<tr>
<td>Emergency Shelter Expansion/Storage Operations. (Annually)</td>
</tr>
<tr>
<td>Approximate Total Capital Costs</td>
</tr>
<tr>
<td>Approximate Total Operational Costs (ongoing)</td>
</tr>
</tbody>
</table>

In conclusion, while federal funding for affordable housing is stable, and State funding has improved, the total cost of housing needs exceeds the available funding. Should the City Council desire to more fully meet the need for homeless facilities and affordable housing, additional revenue would be required.

To move forward with a bond measure, or any other revenue sources, Development Services staff would require further direction from the City Council. If you have any questions, please contact Christopher Koontz, Deputy Director, at (562) 570-6288.

ATTACHMENT KMA AFFORDABLE HOUSING RESOURCES REPORT AND CHART

cc: CHARLES PARKIN, CITY ATTORNEY  
DOUGLAS P. HAUBERT, CITY PROSECUTOR  
LAURA L. DOUD, CITY AUDITOR  
LINDA F. TATUM, ASSISTANT CITY MANAGER  
KEVIN JACKSON, DEPUTY CITY MANAGER  
TERESA CHANDLER, DEPUTY CITY MANAGER  
REBECCA GUZMAN GARNER, ADMINISTRATIVE DEPUTY CITY MANAGER  
MONIQUE DE LA GARZA, CITY CLERK (REF. FILE #20-0019)  
DEPARTMENT HEADS
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I. OVERVIEW

Keyser Marston Associates, Inc. (KMA) was engaged by the City of Long Beach (City) to prepare a report that summarizes the major funding sources and economic development tools that could potentially be used by the City to assist in attracting affordable housing projects. This KMA report is organized as follows:

1. A summary of issues is presented.

2. The characteristics of the Low Income Housing Tax program, which is the foundational funding source for the vast majority of dedicated affordable housing projects, are described.

3. Affordable housing funding programs that are currently being offered by the following entities are identified and described:
   a. The Long Beach Community Investment Company (LBCIC), the City, and the Housing Authority of the City of Long Beach (Housing Authority);
   b. The Los Angeles County Development Authority (LACDA);1 and
   c. The State of California.

4. Economic development programs that are created by the state legislature and the federal government are discussed:
   a. Summaries are provided of the Enhanced Infrastructure Districts and Community Revitalization and Investment Authority programs.
   b. The features of the Opportunity Zone program are described.

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1 In 2019 the Community Development Commission of Los Angeles County (CDC) and the Housing Authority of the County of Los Angeles (HACoLA) were rebranded as LACDA.
c. Legislation being considered by the state government are described.

II. SUMMARY OF ISSUES

A. Housing Demand

It is widely known that California is in the midst of an affordable housing crisis. Jobs are being created at a record pace, but the low and middle income labor force is being priced out the housing market. As Southern California has rebounded from the global real estate recession, rents and sales prices in Long Beach have been escalating rapidly. While this intensifies the demand for market rate residential development, it is becoming exponentially more difficult for very low, low and moderate income households to find housing at an affordable cost.

The City estimates that 28,524 housing units are needed to be developed by 2040. This consists of the 7,048 units that were identified in the City’s Regional Housing Needs Assessment (RHNA) for the period that ends in 2021, and an estimated 21,476 overcrowded housing units as defined in the 2010 United States Census. It can be assumed that population growth will add to the future demand for housing in Long Beach.

B. Affordable Housing Resources

The 2012 dissolution of redevelopment in California eliminated the most significant financial resource available to the City to assist in the production of affordable housing. Prior to the dissolution, approximately $1 billion in property tax increment housing set-aside funds were generated in California annually. This represented approximately 25% of the equity funds that were contributed to produce affordable rental units statewide.

Historically the United States Department of Housing and Urban Development (HUD) has provided a wide array of programs and funding resources to local governments that assist in producing housing for extremely low, very low, and low income households. However, over the past several years the funding for these programs has steadily decreased, and no new affordable housing initiatives have been created recently by the federal government.
Both the state and the county are currently pursuing aggressive strategies to attract affordable housing. This includes legislation, programs, and funding resources that could potentially be used by the City. As part of this report KMA will describe the characteristics of these programs and resources to assist the City in identifying opportunities to pursue.

C. Role of the City

Over time, the former redevelopment agency, the former Long Beach Housing Development Company, and the current LBCIC have assisted in the production of approximately 6,500 income restricted rental units and hundreds of affordable ownership housing units. In addition, the Housing Authority has provided ongoing rental assistance payments to over 6,500 tenants.

The affordable housing activities that have been completed to date were implemented using available local, county, state and federal programs and resources. To achieve future housing production goals the City will need to continue undertaking a wide array of activities that include pursuing outside funding sources and programs and adopting programs that require and/or incentivize the development of affordable housing.

III. LOW INCOME HOUSING TAX CREDITS

A. Federal Low Income Housing Tax Credits

The federal government created the Low Income Housing Tax Credit (Tax Credit) program as part of the Tax Reform Act of 1986. Rental units provided in new construction and qualified acquisition and rehabilitation projects, that fulfill the income and affordability requirements imposed by Internal Revenue Code Section 42, are eligible to apply for “Federal Tax Credits”. Federal Tax Credits represent a dollar-for-dollar credit against the project owner’s federal income tax liability annually over a 10-year period.

During the 10-year allocation period, Federal Tax Credits are allocated annually at 1/10th of the project’s eligible costs indexed at the federal funds rate of interest. Federal Tax Credits are divided into competitively awarded “9% Federal Tax Credits” and non-competitive “4% Federal Tax Credits”.

Federal Tax Credits are awarded to entities that develop affordable housing. The Federal Tax Credits are used to provide tax relief to the developer who then uses the tax relief to reduce the cost of the development. The developer can use the tax relief to reduce the capital costs of the project, such as construction, or to reduce the cost of the permanent financing of the project. The Federal Tax Credits are divided into two types: 9% Federal Tax Credits and 4% Federal Tax Credits.

9% Federal Tax Credits: These are awarded to projects that meet the affordability requirements of the program. The developer can use the 9% Federal Tax Credits to reduce the capital costs of the project. The 9% Federal Tax Credits are divided into two types: 9% Federal Tax Credits for new construction and 9% Federal Tax Credits for rehabilitation.

4% Federal Tax Credits: These are awarded to projects that meet the affordability requirements of the program and have been placed in service before July 1, 1992. The developer can use the 4% Federal Tax Credits to reduce the permanent financing costs of the project. The 4% Federal Tax Credits are divided into two types: 4% Federal Tax Credits for new construction and 4% Federal Tax Credits for rehabilitation.

The Federal Tax Credits are awarded on a competitive basis. The developer must submit a proposal to the federal government that outlines the project and its affordability requirements. The proposal is evaluated based on a number of criteria, including the affordability of the units, the quality of the development, and the developer’s experience.

The Federal Tax Credits are awarded to the developer for a period of 10 years. During this period, the developer can use the Federal Tax Credits to reduce the cost of the development. The Federal Tax Credits are divided into two periods: the first period is 5 years and the second period is also 5 years.

During the first period, the Federal Tax Credits are used to reduce the capital costs of the project. The developer can use the Federal Tax Credits to reduce the cost of the construction and the cost of the land. The Federal Tax Credits can also be used to reduce the cost of the permanent financing of the project.

During the second period, the Federal Tax Credits are used to reduce the permanent financing costs of the project. The developer can use the Federal Tax Credits to reduce the cost of the mortgage or the cost of the loan.

The Federal Tax Credits are divided into two types: 9% Federal Tax Credits and 4% Federal Tax Credits. The 9% Federal Tax Credits are awarded to new construction projects and rehabilitation projects. The 4% Federal Tax Credits are awarded to rehabilitation projects that started before July 1, 1992.

The Federal Tax Credits are awarded on a competitive basis. The developer must submit a proposal to the federal government that outlines the project and its affordability requirements. The proposal is evaluated based on a number of criteria, including the affordability of the units, the quality of the development, and the developer’s experience.

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During the second period, the Federal Tax Credits are used to reduce the permanent financing costs of the project. The developer can use the Federal Tax Credits to reduce the cost of the mortgage or the cost of the loan.
Tax Credits”. These percentages represent the approximate percentage that is multiplied times a project's eligible costs to determine the dollar amount of the annual Federal Tax Credits that will be awarded to a project.

The California Tax Credit Allocation Committee (TCAC) administers these Federal Tax Credit programs. The key characteristics of the two Federal Tax Credit programs can be described as follows:

**9% Federal Tax Credits**

1. The 9% Federal Tax Credits are awarded annually by the Internal Revenue Service (IRS) to states on a per capita basis. In 2018, California received $106.7 million in annual Federal Tax Credits. Since the Federal Tax Credits are awarded to projects annually over a 10-year period, the $106.7 million in authority translates into approximately $1.07 billion in 9% Federal Tax Credits.

2. The competition for the 9% Federal Tax Credits is based on a Qualified Allocation Plan (QAP) that is prepared by TCAC. The QAP is modified regularly.

3. Rental units that are covenanted for at least 55 years to households that meet the following standards are eligible to receive 9% Federal Tax Credits:
   a. The base income range is 0% to 80% of AMI; and
   b. The required average AMI is set at 46%.

4. The financial benefit to a project is equal to approximately 90% of the depreciable costs for income eligible units in the project.
4% Federal Tax Credits

1. The 4% Federal Tax Credits are awarded on a non-competitive basis to rental projects that are financed with Tax Exempt Multifamily Bonds (Bonds) that are issued under the bond authority that is allocated annually to the California Debt Limit Allocation Committee (CDLAC). In 2017, TCAC awarded $123.9 million in 4% Federal Tax Credits, which equates to approximately $1.25 billion over the 10-year Federal Tax Credit period.

2. Rental units that are covenanted for at least 55 years to households that meet the following standards are eligible to receive 4% Federal Tax Credits:
   a. The base income range is 0% to 80% of AMI.
   b. At least 10% of the units must be allocated to households earning less than 50% of AMI.
   c. The required average AMI is set at 59%.

3. The financial benefit to a project is equal to approximately 44% of the depreciable costs for income eligible units in the project.

Federal Tax Credits represent the federal government’s primary program for incentivizing the development of rental housing for very low and low income households. Since the Federal Tax Credit’s adoption in 1986, nationwide over two million income restricted rental units have been developed or acquired rehabilitated. As other federal resources continue to be reduced, and given the demise of redevelopment, Federal and State Tax Credits are taking on a more crucial role in increasing and preserving the supply of affordable housing.

The vast majority of covenanted affordable rental housing units in Long Beach have received Tax Credits. These Tax Credits significantly reduce the amount of local public assistance required to make extremely low, very low and low income units financially viable.
B. State Low Income Housing Tax Credits

State Low Income Housing Tax Credits (State Tax Credits) provide a dollar-for-dollar credit against a project owner’s state income tax liability. The State Tax Credits are a one-time credit that is received over a four-year period.

Tranche 1

In 1987 the state legislature authorized a State Low Income Housing Tax Credit (State Tax Credits – Tranche 1). Tranche 1 of the State Tax Credits are only available to projects that have received an award of Federal Tax Credits. Tranche 1 of the State Tax Credit provides a dollar-for-dollar credit against a project owner’s state income tax liability.

Tranche 1 of the State Tax Credit is administered by TCAC, and the Credits embody the following characteristics:

1. Tranche 1 of the State Tax Credits are awarded on a competitive basis. Of the total, 85% are allocated to 9% Tax Credit projects and 15% are allocated to 4% Tax Credit projects.

2. The financial benefit associated with Tranche 1 of the State Tax Credits is equal to approximately 13% of the depreciable costs for the income eligible units in the project.

3. In 2018 the state authorized $98.6 million in State Tax Credits – Tranche 1.

Tranche 2

In 2019 the state legislature approved an additional State Tax Credit. This State Tax Credit - Tranche 2 of the State Tax Credit that can be described as follows:

1. Tranche 2 of the State Tax Credits are awarded on a competitive basis to projects that have received a Bond allocation from CDLAC.
2. The financial benefit associated with Tranche 2 of the State Tax Credits is equal to approximately 30% of the depreciable costs for the income eligible units in the project.

3. The total allocation of State Tax Credits - Tranche 2 in 2020 is $500 million. Future allocations will require approval by the state legislature.

IV. AFFORDABLE HOUSING FUNDING SOURCES

A. City Controlled Funding Sources

LBCIC

The LBCIC is a nonprofit company that is led by a Board of Directors that is chosen by the Mayor and confirmed by the City Council. The LBCIC has been designated as the Housing Successor to the former Long Beach Redevelopment Agency (Housing Successor). The fiscal year 2019/20 the LMIHAF budget is anticipated to be comprised of the following revenues and expenses:

1. At the commencement of fiscal year 2019/20 the LMIHAF is anticipated to have a beginning fund balance of $22.3 million:
   a. This balance is made up primarily of Supplemental Education Revenue Augmentation Fund (SERA) loan repayments, repayment of Downtown Project Area Deferred Set-Aside funds; and a 20% share of the City loan repayments approved under California Health and Safety Code (H&SC) Section 34191.4.
   b. By the end of fiscal year 2018/19 each of the preceding obligations will be fully retired.

2. The Housing Successor is anticipated to receive approximately $1.3 million in fees/miscellaneous revenue and Interest; residual receipts loan repayments; and rental income from properties owned by the LBCIC.
3. Fiscal year 2019/20 expenses are projected at $10.1 million, and are comprised of the following:

   a. The Housing Successor anticipates providing $7.65 million for the following project related activities:

      i. Assistance to an affordable rental project that has already been selected;

      ii. Project(s) selected from submissions to a Notice of Funding Availability (NOFA) for prospective affordable housing projects; and

      iii. Housing Action Plan Implementation activities.

   b. Expenses related to LBCIC owned properties, a mobile home repair grant program, and administrative expenses are projected at approximately $580,000.

   c. Approximately $1.89 million in City administration costs are projected to be incurred. These costs relate to the costs associated with the Housing and Neighborhood Services Bureau employees who provide support to the LBCIC.

4. The LMIHAF fund balance at the end of fiscal year 2019/20 is projected at $13.5 million.

**HOME Funds Awarded to the City**

HUD currently allocates between $2.0 million and $2.5 million in HOME Investment Partnership Program (HOME) funds to the City annually. However, based on HUD’s recent nationwide allocation trends it would be prudent to assume that the Long Beach allocation of HOME funds will continue to decrease over time.

The LBCIC advises the City Council in the HOME funds allocation process. To date the HOME funds allocation has been used primarily for a rehabilitation loan program. However, the City has a great deal of flexibility in the way HOME funds are spent. The primary limitation is that the funds can only be used to assist households that earn less than 80% of AMI.
**Housing Authority**

The Housing Authority is an independent governmental agency that administers the rental assistance programs funded by HUD. In addition, the Housing Authority administers the Homeless Assistance Program. The funding sources being used by the Housing Authority are comprised of the following HUD financed programs:

**Housing Choice Voucher (HCV) Program**

HUD provides a funding allocation to the Housing Authority that is used to assist very low income and disabled tenants to reside in market rate rental units at an affordable cost. Under this program, the tenant pays 30% of their income towards rent, and the HCV funds the difference between the tenant paid rent and the fair market rent for the unit. The tenant is free to rent any unit that meets HUD’s Housing Quality Standards (HQS).

The Housing Authority administers approximately 6,799 HCV’s per year.

**Veterans Affairs Supportive Housing (VASH) Program**

The VASH Program offers HCV’s, case management and clinical services to homeless Veterans. HUD provides the HCV’s, and the Department of Veterans Affairs provides the services.

The Housing Authority administers approximately 600 VASH vouchers per year.

**Project Based Voucher (PBV) Program**

Project Based Vouchers are used to set aside a specified number of units in a project for very low income and disabled tenants. The tenants that reside in PBV units pay 30% of their income for rent, and the PBV funds the balance required to reach the established fair market rent (FMR). PBV’s are a guaranteed source of income to a project, which makes it possible to include the income in the underwriting for a project’s debt financing.
The Housing Authority has 222 PBV’s under contract and anticipates entering into 200 additional PBV contracts during fiscal year 2018/19.

Special Set-Aside Vouchers

The Housing Authority allocates special set-aside housing vouchers for use in cases referred through the Multi-Service Center (MSC). These vouchers are used to person and families who are at risk of homelessness.

In fiscal year 2015/16 the Housing Authority provided 105 special set-aside vouchers.

Shelter Plus Care Program

The Housing Authority administers the Shelter Plus Care program. This program provides rental assistance vouchers to individuals with mental illness, addiction, AIDS, and other related diseases and disabilities. The vouchers are provided by the Housing Authority, and case management services are provided by agencies that partner with the Housing Authority.

In fiscal year 2015/16 the Housing Authority provided 88 vouchers under the Shelter Plus Care Program.

Housing Opportunities or Persons with AIDS (HOPWA)

The HOPWA program provides housing assistance and supportive services to individuals and their families that are living with HIV/AIDS. The program helps participants avoid homelessness and improves access to treatment with an emphasis on permanent supportive housing.

In fiscal year 2015/16 the Housing Authority leased 21 HOPWA program units.
**Homeless Housing and Services Funding Strategy**

The City is applying a multidisciplinary approach to address homelessness in Long Beach. The City’s fiscal year 2017/18 budget included $11.5 million in funding, which was derived from the following sources:

**HUD Programs**

1. The City received $7.64 million in Continuum of Care funds, which must be used to provide permanent supportive housing, transitional housing, rapid rehousing, supportive services, data collection, planning, and program administration. This amount was increased to $8.18 million on February 1, 2018.

2. The City allocated approximately $786,000 in Emergency Solutions Grants (ESG), Community Development Block Grants (CDBG), and HOME Program funds to provide rapid rehousing and shelter services; MSC oversight and coordination costs; and security deposit assistance.

3. Approximately $11,000 in pass-through grant funding for the Emergency Food and Shelter Program was used to provide motel vouchers to homeless individuals and families for short term housing.

**City Revenue Sources**

1. Measure MA Funds:

   a. A $570,000 allocation was provided for homeless initiatives and for MSC operations.

   b. A $471,000 allocation was made to the Fire Department’s Homeless Education and Response Team (HEART).
c. A $351,000 contribution was provided to the Police Department to fund two Quality of Life Officers.

d. A $118,000 contribution was made to the Public Works Department to fund two maintenance workers that are responsible for homeless rapid response clean-up activities.

2. General Fund Revenues:

   a. Approximately $540,000 in funding was provided for MSC operations and grant administration.

   b. One-time funding of $255,000 was provided to pay for intradepartmental team rapid response and engagement activities.

3. The Mayor’s Fund contributed approximately $135,000 to provide a funding source for support services.

Other Funding Sources

1. LACDA provided a $500,000 grant to the City. This grant was used to extend the Homeless Veteran’s Initiative.

2. The Southern California Association of Governments (SCAG) provided a $100,000 grant to expand the City’s capacity to address homeless issues.

B. LACDA Funding Sources

The following sections of this report identify the affordable housing assistance funding programs that are offered by LACDA and can be accessed by incorporated cities. The LACDA assistance funds are allocated through a competitive NOFA process. This section includes a description of the soon to be offered No Place Like Home NPLH program, and the pertinent programs that were offered in a competitive NOFA that was distributed in September 2018.
The following basic requirements were applied in the September 2018 NOFA:

1. Eligible applicants include nonprofit and for-profit entities; limited liability companies; limited partnerships; public agencies; local jurisdictions; and joint ventures among any of these entities.

2. The identified funding sources are all focused on projects that include a special needs component.

3. Some of the LACDA funding sources can be combined. In the cases where funding sources are combined LACDA imposes a cap on the total amount of funds that can be obtained.

4. Eligible projects consist of new construction; acquisition and operation; and acquisition plus rehabilitation.\(^2\)

5. Units dedicated to special needs tenants must be rented to households that earn less than 30% of AMI. The balance of the units that receive LACDA assistance must be rented to low income households, which is defined as households who earn less than 50% of AMI.

6. Projects must comply with LACDA’s local hire requirements.

7. No residential buildings can be located within 500 feet of a freeway.

Descriptions of the affordable housing financial assistance programs follows.

\(^2\) Rehabilitation projects must incur at least $40,000 per unit in direct rehabilitation costs; projects with existing covenants are not eligible; and a two for one replacement housing obligation is applied to any units in which low income households are displaced.
**No Place Like Home Funds (NPLH)**

The NPLH Program is funded by bonds issued by the state that are then distributed on a formula allocation basis to Los Angeles County. The bonds will be repaid with proceeds from the state’s Mental Health Services Act, which levies a 1% tax on personal incomes of $1 million and above. This program was validated in a November 2018 ballot measure.

The California Department of Housing and Community Development (HCD) is anticipated to allocate approximately $700 million in NPLH funds directly to Los Angeles County. HCD allowed LACDA to independently create program guidelines and to distribute the funds in accordance with a LACDA devised, and HCD approved, allocation methodology.

NPLH funds are provided to finance the capital costs and to fund capitalized operating subsidy funds to assisted units that are rented to individuals with a serious mental illness who are homeless, chronically homeless, or at risk of chronic homelessness. NPLH funds may be used to construct, rehabilitate or preserve permanent supportive housing.

The first NOFA capped the assistance funds per project at $15 million. The maximum assistance funding amounts per unit are presented in the following table:

<table>
<thead>
<tr>
<th>Number of Bedrooms</th>
<th>4% Tax Credit Projects</th>
<th>9% Tax Credit Projects</th>
<th>Non-Tax Credit Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>0/Studio</td>
<td>$215,000</td>
<td>$140,000</td>
<td>$140,000</td>
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<td>1</td>
<td>$230,000</td>
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<tr>
<td>2+</td>
<td>$250,000</td>
<td>$160,000</td>
<td>$160,000</td>
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</table>

It is important to note LACDA has already awarded their entire NPLH allocation for the next two years. It is anticipated that this funding source will once again become available thereafter.
**Affordable Housing Trust Funds (AHTF)**

The September 2018 NOFA offered $39.4 million in AHTF funds for projects that include special needs and low income tenants. In addition to the basic NOFA requirements, AHTF projects are subject to the following:

1. At least three special needs units must be provided for every one low income unit that receives AHTF funding.

2. The maximum assistance is set at $140,000 per special needs unit and $100,000 per low income unit.

3. The total AHTF assistance to the project is capped at $7 million.

AHTF funds were also made available to projects that would preserve existing units at risk of being converted to market rents. The funding available for this type of project was set at $75,000 per unit up to a cap of $1 million per project.

**Mental Health Housing Program Funds (MHHP)**

The September 2018 NOFA offered $34.5 million in MHHP funds to units in rental projects that are targeted to tenants that are homeless or at risk of homelessness. An additional $13.8 million in MHHP funds were targeted to qualified homeless veterans. In addition to the basic NOFA requirements, the following terms are applied to this assistance source:

1. Prospective tenants must have a diagnosed mental illness that falls within the criteria established by California Welfare and Institutions Code Section 5600.3 (a) and/or Section 5603.3 (b).

2. Projects applying for MHHP funds cannot use 9% Federal Tax Credits.

3. Projects that are applying for MHHP funds may also apply for AHTF funds. However, both funding sources cannot be used to subsidize the same unit.
4. MHHP funds may not be used to subsidize projects that have a commitment of funds through the Los Angeles County Department of Mental Health (DMH).

5. The maximum assistance amount is set at $250,000 per assisted unit with a cap of $7 million.

**Measure H Funds**

Measure H was a November 2016 ballot measure to combat homelessness that increased the sales tax in Los Angeles County by ¼ percent for a 10-year period. The management of the Measure H funds was assigned to the Los Angeles Housing Services Authority (LAHSA), the Continuum of Care agency (CoC) for Los Angeles County. However, Long Beach and two other CoC’s in Los Angeles County are independent of LAHSA. After a period of negotiations, Los Angeles County agreed to provide a carve out of Measure H funds for these three independent CoC’s.

During the first partial year of Measure H, which covered October 1, 2017 through June 30, 2018, Long Beach was scheduled to receive approximately $1.9 million in funding. The future funding will be the subject of a negotiations process and will require approval by the Los Angeles County Board of Supervisors.

The Measure H funds being allocated to the CoC can only be used for the following purposes:

1. Homeless prevention for single adults;

2. Rapid rehousing;

3. Housing locations and navigation through the Coordinated Entry System;

4. Outreach services; and

5. Enhancing the emergency shelter system.
In addition to the funding for the preceding five strategies identified by Los Angeles County, the City is anticipated to receive the following benefits from Measure H:

1. The Housing Authority will receive $770,000 in rental assistance funds that will provide for 220 vouchers. These vouchers will be available to individuals and families who access the MSC.

2. The City will have greater access to the permanent supportive housing resources provided by the Los Angeles County Housing for Health program.

3. Capital funds and ongoing assistance funds will be made available when the City is ready to build a year-round homeless shelter.

**PBV’s and PBV VASH Vouchers**

Projects that apply for and are awarded capital assistance funds in LACDA’s NOFA process can also apply for PBV’s and PBV VASH vouchers. In general, these vouchers are only available to special needs households.

**C. State Funding Sources**

In 2017 the state legislature passed, and the Governor signed, a 15-bill housing package targeted towards reducing the housing shortage exhibited throughout California. These bills included Senate Bill 2: Building Homes and Jobs Act (SB 2), and Senate Bill 3: Veterans and Affordable Housing Bond Act of 2018 (SB 3). SB 3 required voter approval, which it received in the November 2018 election.

The funding that will be generated by SB 2 and SB 3 currently represents the most significant state financial contribution to affordable housing. The following section of this report describes the SB 2 and SB 3 funding programs. This section also discusses the Affordable Housing and Sustainable Communities Program and the Veterans Housing and Homeless Prevention program.
**S B 2 Funds**

SB 2 is intended to create a permanent source of funding for affordable housing activities. Specifically, SB 2 established a $75 recording fee on real estate documents, excluding those documents related to the sale of residential dwelling to an owner occupant and those documents that are expressly exempted from payment of recording fee. In transactions with multiple documents, the total recording fee is capped at $225.

HCD is charged with allocating 70% of the SB 2 funds to local governments through the Permanent Local Housing Allocation (PLHA) plan. The final PLHA guidelines were published in October 2019.

In the 2018 Budget Act the total annual SB 2 revenue was estimated at $250 million, which results in $165 million to be allocated to local jurisdictions. Of that total, 90% of the funds will be allocated to local governments that are entitlement jurisdictions for the CDBG program. The City’s funding allocation amount is determined based on the percentage share the City’s CDBG allocation represents of the total of the CDBG revenues received by California jurisdictions.

**Allowable Uses of PLHA Funds**

PLHA funds can be used for the activities:

1. The development costs associated with new construction, rehabilitation, and preservation projects offered for rent to extremely low through moderate income households. Operating subsidies can also be included if needed.

2. The production of rental and ownership housing targeted to households earning up to 150% of AMI.

3. Matching portions of funds placed into local trust funds, regional housing trust funds, and the LMIHAF.
4. Capitalized reserve deposits for services connected to the preservation and creation of new permanent supportive housing.

5. Assisting individuals and families who are experiencing or are at risk of homelessness. Eligible activities include:
   a. Rapid rehousing;
   b. Rental assistance;
   c. Supportive/case management services that allow people to obtain and retain housing;
   d. Operating and capital costs for navigation centers and emergency shelters;
   e. New construction, rehabilitation, or preservation of transitional housing; and
   f. Continued assistance to households assisted with California Emergency Solutions and Housing (CESH) funds.

6. Accessibility modifications in low income owner-occupied housing.

7. Efforts to acquire and rehabilitate foreclosed or vacant homes and apartments.

8. Home ownership programs including down payment assistance.

9. Fiscal incentives or matching funds to local agencies that approve new housing for extremely low to moderate income households.

10. Up to 5% of the PLHA allocation can be used for administrative costs.

Threshold Criteria

To receive a PLHA allocation, the City must meet the following threshold criteria:
1. Have an adopted and compliant Housing Element that has been certified by HCD.

2. Submit the most recent Housing Element Annual Progress Report in compliance with California Government Code Section 65400.

3. Submit a plan to HCD, by the deadline specified in the NOFA, that includes the following components:

   a. Descriptions of the eligible activities that the City intends to undertake.

   b. Documentation that the application has been authorized by the City Council.

   c. Certification that the City’s selection process for awarding funds will avoid conflicts of interest and will be accessible to the public.

   d. A plan that details the following:

      i. The manner in which the allocated funds will be used for eligible activities;

      ii. A description of how the City will prioritize the use of funds to increase the supply of housing for households earning less than 60% of AMI;

      iii. A description of how the plan is consistent with the programs identified in the City’s Housing Element; and

      iv. Evidence that the plan was authorized and approved by a resolution of the City Council and that the public had an adequate opportunity to review and comment on its content.

   e. The following must be provided for each proposed activity:

      i. A description of the activity and the percentage of funds allocated to the activity;
ii. The projected number of households to be served at each income level and a comparison to the unmet share of the RHNA at each income level;

iii. A schedule of performance; and

iv. The length of the income and affordability covenants. Rental projects are required to impose covenant periods of at least 55 years.

4. The plan must cover a five-year period.

5. Any funds that are used to assist home owners must include a recorded deed restriction that imposes one of the following requirements when the home is no longer the primary residence of the home owner:

   a. Repayment of the assistance plus interest; or

   b. Resale of the unit to an income qualified buyer at an affordable sales price; or

   c. An equity appreciation sharing arrangement between the City and the home owner.

6. Any funds that are used to assist rental units must be provided in the form of a low-interest, deferred loan to the project sponsor:

   a. The loan must be evidenced by a promissory note and secured by a recorded deed of trust.

   b. The project must be subject to a recorded regulatory agreement that describes the income and affordability covenants that will be imposed over at least a 55-year term.

7. A program income plan must be prepared that describes how repaid loans will be reused for eligible activities.
**SB 3 Programs**

Over the years HCD has offered a wide array of affordable housing assistance sources based on the issuance of bonds issued by the state for specifically defined purposes. The passage of the Veterans and Affordable Housing Bond Act of 2018 (SB 3) provides the state with $4 billion in bonding authority, which is to be allocated as follows:

1. Three billion dollars will be used to finance existing housing programs, infill infrastructure financing, and affordable housing matching grant programs.

2. One billion dollars will be used to provide additional funding for existing farm, home, and mobile home purchase assistance for veterans.

The existing programs that will receive funding under SB 3 are described in the following sections of this report. HCD will be allocating the funds under each of the identified programs. In the future HCD has the authority to reallocate funds to the Multifamily Housing Program from any other program that is deemed to demonstrate insufficient demand.

**Multifamily Housing Program (MHP)**

The MHP provides deferred payment loans for new construction, rehabilitation, and preservation of permanent and transitional rental housing for households earning up to 60% of AMI. SB 3 allocates $1.5 billion to this funding source. These funds are awarded to projects by HCD on a competitive basis and are typically coupled with 4% Federal Tax Credits. The 9% Tax Credit can only be use for projects that qualify as supportive housing project for homeless populations.

Projects that qualify for MHP funding are:

1. Large family projects:
a. At least 25% of the restricted units must include three or more bedrooms, and at least an additional 25% of the restricted units must have two or more bedroom units.

b. For projects located in an area shown on the TCAC/HCD Opportunity Area Map as “High Segregation and Poverty” at least 20% of the units must be provided to households earning more than 60% of AMI. Those units can be restricted or unrestricted.

2. Projects in which at least 25% of the restricted units are allocated to special needs populations.

3. Projects dedicated to residents who are 62 years and older.

4. Supportive housing projects, which are defined as projects in which at least 15% of the restricted units are allocated to chronically homeless individuals and families.

5. Covenanted affordable projects that are at risk of converting to unrestricted market rents.

The layering and leveraging of multiple HCD funding sources are guided by the following requirements:

1. Projects cannot stack MHP funds and other HCD housing program funds on the same assisted units.

2. Projects can stack MHP funds with non-housing funds that are offered by HCD on the same assisted units.

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3 Funds distributed by the Strategic Growth Council are treated as HCD funding sources.
3. No more than two HCD housing program funding sources can be used on a single project.

4. Projects can combine MHP funds with state and federal funds that are provided by HCD to local agencies and then awarded to individual projects.

MHP imposes state prevailing wage requirements on projects that receive an MHP loan. Prior to the close of the MHP loan the developer must submit to HCD a certification that prevailing wages have been paid or will be paid.

The MHP loan limits and assistance caps are updated by HCD each year. For 60% of AMI units, the latest HCD publication set the loan limits at $45,000 for projects that are using 9% Federal Tax Credits, and at $125,000 per unit for all other projects. The loan limits per unit are increased based on the imposition of more stringent income standards and the number of bedrooms in the unit.

**CalHome Program**

The CalHome Program provides grants to public agencies and nonprofit developers to undertake eligible activities and then to sell homes to qualified very low and low income home buyers. The funds can be used by the grantees for the following purposes:

1. Predevelopment activities;

2. Site acquisition;

3. Site development;

4. Rehabilitation;

5. Acquisition and rehabilitation of site-built housing;

6. Rehabilitation, repair, and replacement of manufactured homes;
7. Down payment assistance;

8. Mortgage financing; and

9. Home buyer counseling.

Upon sale of the units to qualified home buyers the grants are forgiven, and the very low and low income home buyers receive deferred payment loans. These deferred payment loans become due and payable on the earliest of:

1. The resale or transfer of the home;

2. When the home ceases to be owner occupied; or

3. At the loan’s maturity date.

In the 2018 Disaster Assistance Awards NOFA the maximum loan limits were set at $100,000 per unit. In previous NOFA’s the maximum loan limit had been set at $60,000 per unit with the option of setting the loan limit at $80,000 per unit for up to 1/3 of the CalHome loans.

Infill Incentive Grant (IIG) Program

The IIG Program provides funds to assist in the construction and rehabilitation of infrastructure that supports high density affordable and mixed income housing in infill locations. HCD will award the $300 million of funds that are allocated to this program on a competitive basis.

Allowable uses of the funds are the following activities related to infill development:

1. Park creation, development or rehabilitation;

2. Water, sewer, or other public infrastructure costs;

3. Transportation improvements; and

4. Traffic mitigation.
Based on the 2017 program guidelines the total maximum grant amounts are based on the following criteria:

1. The following threshold standards are considered:
   a. The number of units in the project;
   b. The number of bedrooms in the units;
   c. The project’s density; and
   d. The affordability standards being imposed.

2. The minimum and maximum grant amounts are set as follows:
   a. The basic standards set the minimum grant amount at $500,000 and the maximum grant amount at $5 million for each NOFA.
   b. For projects with over 200 units the minimum grant amount is $2 million, and the maximum amount is $30 million for each NOFA.
   c. The lifetime maximum grant award for a single project is $50 million.

3. For projects receiving Tax Credits, the grant will be structured as a deferred payment loan that carries 0% interest over a minimum 55-year term.

Affordable Housing Innovation Fund

The Affordable Housing Innovation Fund program provides grant funding to jurisdictions that have created, funded and operated a local housing trust fund. SB 3 allocated $300 million to this program. HCD will offer the program funds through a NOFA process. Completed applications will be funded on a first-come first-served basis until the earlier of allocation of all the funds or when the NOFA deadline expires.
The most recent NOFA and program regulations were prepared in 2014. The terms included in the NOFA and regulations can be summarized as follows:

1. The program funds can be used for the following project types:
   a. Rental projects or units that are subject to income and affordability covenants that remain in place for at least 55 years;
   b. Emergency shelters, safe havens and transitional housing projects; and
   c. Qualifying home ownership projects.

2. Permitted uses of loan funds are:
   a. Predevelopment expenses;
   b. Acquisition costs;
   c. Construction costs; and
   d. Rehabilitation costs.

3. The jurisdiction in which the trust fund is located must have an adopted Housing Element that has been certified by HCD.

4. Matching fund requirements:
   a. Trust funds that are exclusively funded by any combination of HOME, CDBG or LMIHAF funds, or any other state or federal housing funds are not eligible to participate in the grant program.
   b. The recipient must contribute matching funds in an amount equal to or greater than the program grant.
c. Funds restricted by state or federal law, such as HOME funds, CDBG funds, and funds from the LMIHAF cannot be used as matching funds.

5. The following income and affordability standards must be applied to the grant funds and matching funds:

   a. At least 30% of the funds must be spent on housing for extremely low income households;

   b. No more than 20% of the funds can be spent on housing for moderate income households; and

   c. The remaining funds must be spent on housing for low income households.

6. Grant funding amounts:

   a. The maximum grant amount was set at $2 million for first time recipients. The amount is reduced to $1 million for trust funds that have previously received a grant from this program.

   b. The minimum grant request was set at $500,000.

Transit Oriented Development Implementation Fund

The Transit Oriented Development Implementation Fund provides funding to local and regional governments; transit agencies, and developers. The $150 million in funding allocated under SB 3 can be used to develop or facilitate higher density uses, proximate to transit stations, that will increase public transit ridership.
California Self Help Housing Fund Program (SCHHP)

The CSHHP provides assistance for low and moderate income households to build their own homes. The assistance is provided in the form of grants to sponsor organization that provide technical assistance for participating households. HCD will award the $150 million in allocated funds on a first-come first-served basis.

Joe Serna, Jr. Farmworker Housing Grant Fund

The Joe Serna, Jr. Farmworker Housing Grant Fund has been allocated $300 million in SB 3 funds. These funds are to be used for construction or rehabilitation of housing for agricultural workers.

Affordable Housing and Sustainable Communities (AHSC) Program

The AHSC program is administered by the Strategic Growth Council and implemented by HCD. The AHSC Program provides funding for land use, housing, transportation and land preservation projects to support infill and compact developments that reduce greenhouse gas emissions. Funding for the AHSC program is provided from the Greenhouse Gas Reduction Fund, which is an account established to hold the proceeds from Cap and Trade auction proceeds.

AHSC program funds are allocated by HCD through a highly competitive NOFA process. In November 2018 HCD distributed a NOFA for $395 million in funding. The AHSC program funding is divided evenly between designated Affordable Housing Developments and projects being developed in areas defined as Disadvantaged Communities. A single project can qualify for funding under both the identified funding sources.

Eligible public sector applicants include local governments, redevelopment successor agencies, transit agencies, joint powers authorities, and educational entities. Developers and program operators are also eligible to apply for AHSC program funds.
The AHSC program loan limits and assistance caps are updated by HCD each year. For 60% of AMI units, the latest HCD publication set the loan limits at $45,000 for projects that are using 9% Federal Tax Credits, and at $125,000 per unit for all other projects. The loan limits per unit are increased based on the imposition of more stringent income standards and the number of bedrooms in the unit. The minimum and maximum AHSC program loan and/or grant awards were set as follows:

1. The maximum funding amount available to a project is $20 million.
2. The minimum funding award amount is $1 million.
3. A single developer cannot receive more than $40 million in loan and/or grant funds in a NOFA cycle.

Project types that are allowed under the affordable housing component of the AHSC are:

1. New construction;
2. Site acquisition;
3. Acquisition and substantial rehabilitation of existing units;
4. Preservation of affordable housing projects at risk of converting to unrestricted market rents; and
5. Conversion of non-residential structures to residential units.

**Other Program Requirements**

1. Projects are required to comply with Article XXXIV, Section 1 of the California Constitution.
2. The use of AHSC program funds may trigger prevailing wage requirements as set forth in California Labor Code Section 1720.
D. Veterans Housing and Homeless Prevention Program (VHHP)

The VHHP program is offered by HCD in collaboration with CalHFA and the California Department of Veterans Affairs (CalVet). The VHHP program provides deferred payment loans for permanent supportive housing units and for affordable housing units for very low and low income veterans and their families.

VHHP program funds are available to nonprofit and for-profit developers. VHHP program funds are awarded annually through a NOFA process. The last NOFA was distributed in May 2018 with a funding amount of $75 million.

The threshold requirements imposed by the VHHP program can be summarized as follows:

1. Allowable project types are new construction; acquisition and substantial rehabilitation; and conversion of an existing structure into an affordable housing development.

2. The use of VHHP program funds may trigger the state prevailing wage requirements as set forth in California Labor Code Section 1720. Each applicant is responsible for determining on a case-by-case basis if the project is subject to the state prevailing wage requirements.

3. Projects cannot stack VHHP program funds and other HCD housing program funds on the same assisted units. Projects may use funding from other HCD sources for units in the project that are not receiving VHHP program funds.

4. Income and affordability standards:
   a. At least 45% of the VHHP assisted units in the project must be allocated to extremely low income veterans. The maximum household income for tenants residing in VHHP program assisted units cannot exceed 60% of AMI.
b. At least 25% of the total units in the projects must be allocated to veterans. These units can be restricted under the VHHP program or another public agency program.

c. The VHHP program regulatory agreement will not restrict more than half of the total project units to households that qualify as either chronically homeless or homeless with a disability. This cap does not prohibit any other funding sources from restricting additional units to tenants in these populations.

5. VHHP program projects are required to provide tenants with access to an array of services and amenities through community or veteran specific services.

6. The VHHP program is a Housing First program. This means that the units must be made available with very low barriers to entry. Tenants cannot be required to use any of the supportive services offered at the project as a condition of their tenancy.

The VHHP program loan limits and assistance caps are updated by HCD each year. The May 2018 NOFA set the maximum loan per project at $10 million. For 60% of AMI units, the latest HCD publication set the loan limits at $45,000 for projects that are using 9% Federal Tax Credits, and at $125,000 per unit for all other projects. The loan limits per unit are increased based on the imposition of more stringent income standards and the number of bedrooms in the unit.

V. ECONOMIC DEVELOPMENT PROGRAMS

The following sections of this report discuss the following:

1. The two major economic development programs that have been enacted by the state legislature;

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4 Projects funded under the Transitional Housing and Emergency Shelter set aside are not subject to program wide loan limits. However, no set-aside funding was provided for Transitional housing for fiscal year 2018/19.
2. The Opportunity Zone program that was created under the federal Tax Cuts and Jobs Act of 2017 and is being implemented by the IRS; and

3. Legislation that is currently being considered by the state legislature.

A. Programs Created by the State Legislature

Redevelopment

The Community Redevelopment Act was enacted in 1945. In 1951 the Community Redevelopment Law was codified, and in 1952 the California Constitution was amended to allow for redevelopment agencies to collect property tax increment. In Long Beach, the first redevelopment project was adopted in 1975.

Property tax increment was the primary revenue source available to redevelopment agencies. In general, property tax increment was defined as the annual incremental increase in the assessed value of properties located within an adopted redevelopment project area. The property tax revenue received by the various taxing entities, including the host city, was frozen at the amount that was generated prior to the adoption of the redevelopment project area.\(^5\)

The key financial benefits associated with redevelopment were:

1. Redevelopment agencies had the authority to issue debt secured by the property tax increment. This debt was then to be used in accordance with the programs identified in the redevelopment plan.

2. By February 1, 2012, when redevelopment was dissolved, over $1 billion per year in property tax increment housing set-aside funds were being generated statewide. This represented the largest revenue source in California that was dedicated to affordable housing activities.

\(^5\) Statutory pass through agreements with taxing entities were enacted under AB 1290 on January 1, 1994.
Post Redevelopment Dissolution

The state legislature adopted, and the Governor signed, legislation that allowed for the creation of Enhanced Infrastructure Financing Districts (EIFD) and Community Reinvestment Authorities (CRIA). The primary revenue source for both of these entities is a form of property tax increment. However, the key differences between these programs and how property tax increment was treated under redevelopment are:

1. In no case can the school districts or educational entities contribute any property tax increment revenue to an EIFD or CRIA. School districts and educational entities receive more than 50% of the 1% property tax levy.

2. The only way for an EIFD or CRIA to gain access to other taxing entities’ property tax increment revenue is for the taxing entity to contribute revenue on a voluntary basis.

The preceding two restrictions severely limit the amount of revenue available to EIFD’s and CRIA’s. As a practical matter, unless other taxing entities agree to contribute some or all of their share of the property tax increment, the incremental increase in property tax revenue received by the host city is unlikely to support a large scale program. However, it may be possible to couple the available property tax increment with other outside assistance sources to increase the program scope.

Short summaries of the powers held by EIFD’s and CRIA’s follow. If the City is interested in pursuing one or both of these programs a more in depth study will be required.

EIFD’s

The EIFD legislation is codified in California Government Code Sections 53398.50-53398.88. The legislation provides authority for localities to use property tax increment to finance a wide array of public infrastructure, and private development such as affordable housing, transit oriented development, industrial buildings, sustainable development, and remediation activities using the Polanco act.
No geographic limitations are imposed on the area encompassed by an EIFD, and no blight findings are required. An EIFD can include properties located in multiple cities within a county.

The City Council must form a Public Financing Authority (PFA) to govern the EIFD process. The PFA is required to prepare an Infrastructure Financing Plan, which must be sent to the land owners in the district and the other tax entities for review. The next step is a noticed public hearing, at which the Infrastructure Financing Plan is adopted and the EIFD is formed. No public vote is required to create an EIFD.

At the present time a 55% vote is required to issue bonds to finance EIFD activities. However, SB 128 recently passed out of the California Senate and is being heard by the California Assembly. If SB 128 is passed, and the Governor signs it, the voting requirement will be eliminated. A requirement to hold three public hearings pertaining to the Infrastructure Financing Plan would be imposed in its place.

CRIA’s

The CRIA legislation is codified in California Government Code Sections 62000-62208. The legislation provides these authorities with all the powers that redevelopment agencies held. A CRIA can undertake infrastructure improvements; provide low and moderate income housing; seismically retrofit existing buildings; acquire and transfer real property; and remediate contamination using the Polanco act.

A CRIA has the authority to borrow money, receive grants, accept financial assistance from the state government, the federal government, any other public agency, and any private lending institution to implement projects within its area of operation.

At least 80% of the Revitalization Area being adopted by a CRIA must be characterized by:
1. An annual median household income that is less than 80% of the annual median income of the city, county, or state; and

2. At least three out of the following four conditions:
   a. An unemployment rate that is at least 3% higher than the statewide average annual unemployment rate.
   b. Crime rates that are at least 5% higher than the statewide average crime rate for violent or property crime offenses.
   c. Deteriorated or inadequate infrastructure.
   d. Deteriorated commercial or residential structures.

The steps required to form a CRIA include one meeting, three public hearings held at least 30 days apart, a protest process, and if a certain protest threshold is met, an election is required to approve the formation. As part of this process, a draft Revitalization Plan must be provided to the public and each property owner within the proposed Revitalization Area at least 30 days prior to noticing the first public hearing. A protest proceeding must be held at the third public meeting. The following actions must be taken after the protest proceeding:

1. If more than 50% of the combined property owners and residents protest, the plan formation activities must terminate.

2. If between 25% and 50% of the combined property owners and residents protest, an election must be held within 90 days of the third public hearing. If the majority opposes the plan, the proposed plan must be terminated, and a new plan cannot be considered for at least one year.

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6 A CRIA has the option of selecting the jurisdiction from which to measure the median household income.
3. If fewer than 25% of the combined property owners and residents protest, the plan can be adopted by ordinance, subject to referendum.

The following affordable housing requirements are imposed on CRIA’s:

1. At least 25% of the property tax increment allocated to a CRIA must be deposited into a Low and Moderate Income Housing Fund.

2. Affordable housing activities and requirements are guided by the pertinent sections of the Community Redevelopment Law (CRL) that were in place prior to the dissolution of redevelopment.

B. Opportunity Zone Program

The Opportunity Zones concept was originally introduced in the Investing in Opportunity Act and enacted in 2017 as part of the Tax Cuts and Jobs Act of 2017. The Chief Executive of each state was charged with nominating census tracts, that qualify as economically distressed areas, to receive Opportunity Zone designations. These nominations were then certified by Secretary of the United States Treasury Department. Nineteen (19) census tracts in Long Beach were certified as Opportunity Zones in April 2018.

Opportunity Zones are meant to be used as an economic development tool by providing federal income tax benefits to investors. Specifically, Opportunity Zones provide the following capital gains incentives:

1. An investor that reinvests capital gains, that were realized within the previous six months, into a Qualified Opportunity Fund can defer paying taxes on that gain until the earlier of the date on which the investment in the Qualified Opportunity Fund is sold or exchanged, or December 31, 2026.

2. Reduction in capital gains taxes:
a. Investors that hold their investment in the Qualified Opportunity Fund for at least five years can reduce their tax liability on the deferred capital gain by 10%.

b. Investors that hold their investment in the Qualified Opportunity Fund for at least seven years can reduce their tax liability on the deferred capital gain by 15%.

3. Investors that maintain their investment in the Qualified Opportunity Fund for at least 10 years will not be subject to federal capital gains taxes on the gains generated by their investment in the Qualified Opportunity Fund.

A key constraint to the Opportunity Zone program is the speed with which investors need to make contributions to a Qualified Opportunity Fund in order to maximize the available income tax benefits. The timing issues can be summarized as follows:

1. To secure the entire package of income tax sheltering benefits available on the previous gain, it is necessary to invest in a Qualified Opportunity Fund by June 29, 2019.

2. To maximize the income tax benefits available on the investment in the Qualified Opportunity Fund, the investment must be made by December 31, 2019.

C. Currently Proposed State Legislation

The Governor and the state legislature have established a goal of significantly increasing the production of affordable housing in California. To date, the majority of their actions have involved the imposition of additional requirements on local governments. This in effect creates an unfunded mandate since one of the biggest challenges faced by jurisdictions that are attempting to produce affordable housing is the relative lack of financial resources.
EIFD and CRIA legislation was enacted to provide some of the powers that redevelopment agencies held. But, the limited financial resources available to these programs has constrained their usefulness. At this time the following two pieces of legislation are being considered that could potentially shift this balance.

**AB 11: Community Redevelopment Law of 2019**

AB 11 authorizes the formation of affordable housing and infrastructure agencies (AHIA) subject to receiving approval from the Strategic Growth Council. AB 11 is effectively an expansion of the CRIA legislation in that it gives AHIA’s all the powers that were granted to redevelopment agencies. The key additions included in AB 11 are:

1. The approval of an AHIA would be predicated on a Strategic Growth Council analysis of the fiscal impacts created on state revenues, and the magnitude of greenhouse gas reduction that would be achieved by the AHIA activities.

2. An approved AHIA would receive the school district and educational entities shares of the property tax increment generated with the AHIA. In turn, the state would backfill the revenue loss to the schools through the Proposition 98 obligations.\(^7\)

3. The share of revenues that would be required to be used for affordable housing is increased from 25% to 30%.

4. The legislation imposes robust replacement housing and anti-displacement policies.

5. Strict oversight policies are included in the legislation.

6. The AHIA would be governed by a board made up of multiple other agencies and the public.

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\(^7\) The total contribution of Proposition 98 funds would be capped, which limits the number of AHIA’s that could be formed.
**SB 5: Affordable Housing and Community Development Investment Program**

SB 5 is an expansion of the existing EIFD legislation. The additional requirements and benefits associated with the Affordable Housing and Community Investment Program can be summarized as follows:

1. The state would provide annual funding in the following amounts:
   a. The funding in the first year would be set $200 million.
   b. In years two through five the funding would be increased by $200 million annually until a $1 billion per year contribution is reached.
   c. In years six through 10 the funding would be increased by $250 million annually until a $2 billion per year contribution is reached.

2. Applicants would be required to submit an implementation plan to a nine member Affordable Housing and Community Development Committee. The Committee would include the following members or their designees:
   a. The Chair of the Strategic Growth Council;
   b. The Chair of the California Infrastructure and Economic Development Bank;
   c. The Chair of the California Workforce Investment Board;
   d. The Director of HCD;
   e. Two members appointed by the Speaker of the Assembly;
   f. Two members appointed by the Senate Rules Committee; and
   g. A member of the public with expertise in education finance appointed by the Joint Legislative Budget Committee.
3. The Committee would be required to ensure that the funds available to the program are distributed in a manner that achieves geographic equity.

4. The program would impose prevailing wage requirements and an as yet defined requirement to hire a skilled and trained workforce.

5. The program would require 50% of the funding to be used in the production of affordable housing.

6. The program would prohibit the demolition of housing that is subject to affordable housing requirements or rent control. It would also prohibit projects to be undertaken on properties where an eviction occurred at any time during the previous 10-year period.

VI. FINDINGS AND RECOMMENDATIONS

A. Redevelopment Replacement Programs

Since the dissolution of redevelopment in 2012 members of the state legislature have been attempting to create programs that provide the benefits associated with redevelopment without taking resources from the various taxing entities. However, the programs adopted to date do not come close to replacing the $1 billion per year in dedicated affordable housing resources that were generated by property tax increment housing set-aside funds.

Legislation currently being proposed has the potential to generate affordable housing funding of the magnitude that was lost after the dissolution of redevelopment. It may be in the City’s interest to join a lobbying effort to encourage the passage of AB 11 and/or SB 5.

B. Affordable Housing Assistance Programs

Over the past several years the state and the county have created the wide mix of affordable housing assistance programs that are identified in this report. It is important to note that the projects that receive assistance awards from the LBCIC are required to leverage outside funds
to minimize the LBCIC assistance amounts. To that end, the projects that have received LBCIC assistance have been those that take full advantage of the available outside funding sources. Similarly, the Housing Authority is taking an active role in procuring funding from both LACDA and federal sources.