



Memorandum

**TO: RULES AND OPEN
GOVERNMENT COMMITTEE**

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: June 2, 2010

Approved

Date

6/4/10

COUNCIL DISTRICT: City-Wide
SNI AREA: N/A

SUBJECT: LOW-INCOME HOUSING TAX CREDITS

RECOMMENDATION

1. It is recommended that the City Council approve a support position for two federal bills regarding the Low-Income Housing Tax Credit (LIHTC) Program: S. 3141 (Bingaman) & S. 3326 (Cantwell).
2. Recommend a one-week turnaround to the City Council so that it can affirm the City's support for S. 3141 and S. 3326.

ANALYSIS

The Low-Income Housing Tax Credit Program (LIHTC) is regarded as the country's largest contributor to affordable housing. In San José alone, this program has helped finance the development of more than 13,000 housing units and more than 800 single-room occupancy units. The changes proposed to the LIHTC by Senator Bingaman and Senator Cantwell would help the City continue to build much needed affordable housing as well as create construction jobs at an opportune time given the poor economy and lack of financial resources at both the State and local level. Furthermore, the changes will be particularly helpful since the City is tasked with producing more than 13,000 low-income units as part of its Regional Housing Needs Allocation issued by the Association of Bay Area Governments.

As a result of the economic downturn, the LIHTC is facing significant challenges in attracting private investment. Many investors have exited the market because they have incurred significant losses. Investment in the LIHTC has dropped from about \$9 billion in 2006 and 2007, to approximately \$4.5 billion in 2009.

S. 3141 attempts to remedy these issues by making the following changes: 1) Currently, the law allows investors to use LIHTC to lower their tax bills for the current year or previous year. S. 3141 extends the period during which the credit can be taken to the current year or the previous five years. These "carry back" proceeds must be invested entirely in new housing developments, which ensures that this tax benefit flows to investors who are committed to building new affordable housing; and 2) The bill allows future investment credits to be carried back up to five

years. These changes will line up much needed investors and resources to build affordable housing.

Similar to Senator Bingaman's proposed legislation, S. 3326 would also provide the "carryback provision" for up to five years. In addition, Cantwell's bill extends the successful LIHTC exchange program to tax credits generated from housing financed by the tax-exempt Multifamily Housing Bond Program. Through this program, states are allowed to trade in tax credits for grants, which allows projects to secure a stable source of funding until the market for tax credits recovers. This provision was originally established under the American Recovery and Reinvestment Act.

The City of San José has had great success with the LIHTC program, with well over \$300 million in tax credits supporting the construction of affordable housing since 2000. On a national level, it is estimated that the bill would generate \$10 billion in construction activity, over 80,000 homes, and about 100,000 jobs. If both of these bills are passed, much needed funding for affordable housing will become available.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This document will be posted on the City's website on June 4th for the June 9, 2010 Rules and Open Government Committee.

COORDINATION

Per the City's expedited bill recommendation process, this memorandum was coordinated with the City Attorney's Office and the Office of Intergovernmental Relations.

POLICY ALIGNMENT

This bill impacts the following legislative guiding principle: Pursue Federal and State Funding for Key Efforts. Specifically, this bill protects and enhances current sources of federal funding that promote the creation of affordable housing.

RULES AND OPEN GOVERNMENT COMMITTEE

June 2, 2010

Subject: SUPPORT FOR LOW-INCOME HOUSING TAX CREDIT LEGISLATION

CEQA

Not a project.

/s/

LESLYE KRUTKO
Director of Housing

For more information, call Jessica Scheiner, Homeless & Policy Manager, at (408) 975-4417.