The California Affordable Housing Pipeline | April 2024

Maintaining Momentum Towards an Affordable Future

California must produce 1 million affordable homes over the next decade. Heeding this call, the affordable housing sector is actively designing, seeking public approvals, and working to secure funding for new developments – building out the pipeline of affordable homes. At the same time, the State Legislature and the Newsom Administration have taken bold action to invest resources and remove barriers to build affordable housing across the state.

Despite this progress, far too many affordable developments are stalled having yet to begin construction due to a lack of public funding.

Enterprise Community Partners (Enterprise) conducted an analysis of the California Affordable Housing Pipeline (Pipeline), which analyzes the developments near-construction but awaiting funding. It illustrates the enormous progress the state has made, but also an impact yet to be fully realized. This brief outlines the latest data on the Pipeline and outlines four key actions that federal and state leaders can take to unlock and scale affordable housing.

1. INVEST ONGOING STATE FUNDING
2. CURB COSTS BY ADDRESSING SYSTEM INEFFICIENCIES
3. EMPOWER LOCAL & REGIONAL JURISDICTIONS TO DO THEIR PART
4. REFORM FEDERAL PROGRAMS

46,605

AFFORDABLE HOMES IN THE NEAR-CONSTRUCTION PIPELINE AWAITING FUNDING

THESE HOMES WOULD SERVE

512,655

LOW-INCOME HOUSEHOLDS OVER THE NEXT 55 YEARS[1]

[1] According to data from the AARP Public Policy Institute and HUD's Office of Policy Development and Research, residents stay in LIHTC-financed affordable housing for an average of 5 years.

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Maintaining Our Momentum

California faces a housing affordability and homelessness crisis decades in the making. Over the last several years, the state has begun taking meaningful steps to turn the tide on this generational issue. Leaders have made unprecedented investments in affordable housing. Streamlining legislation has cleared longstanding hurdles to help communities say "yes" to affordable housing. And, in the depths of a pandemic and economic precarity for Californians, state and federal leadership took swift and bold action to shelter unhoused residents and mitigate what could have been an extreme surge in homelessness.

California has proven that, together, all sectors can rise to these challenges, but it requires continued investment and enabling policy to make and continue progress.

Funding Affordable Homes in California

An affordable housing development generally leverages multiple funding sources to fully finance construction, often referred to as the "capital stack." This includes a commercial mortgage from a bank, federal Low-Income Housing Tax Credits (LIHTC), tax-exempt bonds, state tax credits, and public subsidy. Developments that serve extremely low-income households, such as permanent supportive housing, also often require operating subsidies to provide deeply affordable rents and on-site services.

The public sector provides subsidy, which is often the first funding committed and allows the development to then leverage additional private and federal financing. For this reason, public subsidy is especially critical for developments to move forward. Unfortunately, these critical public subsidies are in limited supply across California, and state programs continue to be dramatically oversubscribed.

Who Lives in Affordable Housing?

Affordable housing serves low-income Californians, defined by area median income (AMI):

- Low-income: 50-80% of AMI
- Very Low-Income: 30-50% of AMI
- Extremely Low-Income: ≤ 30% of AMI

Example: Sacramento AMI is $102K (2022)

	LI	VLI	ELI
2-person Household	$66K	$41K	$24K
4-person Household	$81K	$51K	$30K

K-12 Teacher w/ Bachelor's Degree
$50,000-$62,000

Bus Driver
$41,000

Typical Funding Sources for Affordable Housing

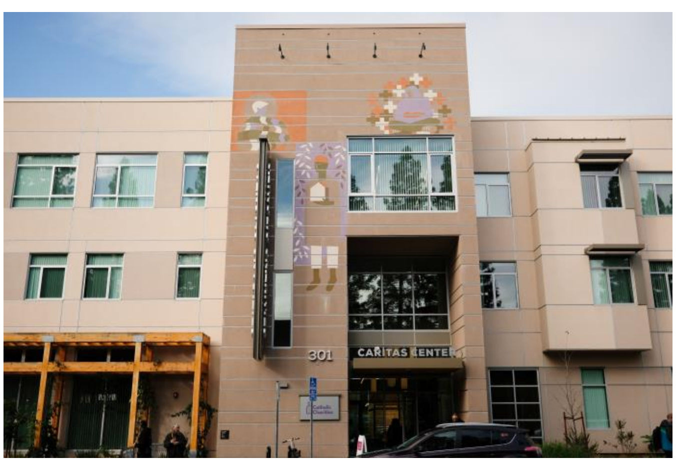
Subsidy	State & Local Programs
Hard Debt	Mortgage from Bank
Tax Credits & Bonds	LIHTC & Tax-Exempt Bonds
Operating Subsidy (if needed)	Federal Vouchers & State Programs

The California Affordable Housing Pipeline

In March 2024, Enterprise conducted an analysis of the state's near-construction pipeline of affordable homes. These developments are awaiting final funding to complete their total funding need and break ground. These "near-construction" developments have applied to and/or secured state or federal funding, but still require additional funding to begin construction. Most of the pipeline projects have local site control secured, entitlements, and local funding commitments.

There are over 46,605 affordable homes (491 developments) in the pipeline. These developments are estimated to serve 512,655 low-income households over the next 55 years.[1] Over half of these homes (25,806) have already been awarded funding from at least one state program.

State funding for these developments is critical to unlocking more private and federal resources. To move the Pipeline forward, these developments need an estimated $2.6 billion in state subsidies and $978 million in state tax credits. On average, the state contributes $148,1200 in subsidy to each affordable home it funds. For every $1 of state funds invested in developments, $4 of private and federal funds are leveraged.[2]



[2] 2021-2023 average of LIHTC-funded affordable housing

$2.6 B

ESTIMATED STATE SUBSIDY NEEDED FOR PIPELINE

$148,120

AVERAGE PER HOME STATE SUBSIDY CONTRIBUTION FOR AFFORDABLE HOUSING

$978 M

ESTIMATED STATE TAX CREDIT NEEDED FOR PIPELINE

1:4

LEVERAGE OF STATE FUNDS TO FEDERAL AND PRIVATE FUNDS

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4 Actions to Unlock and Scale the Housing Pipeline

State and federal leaders have a golden opportunity to unlock and scale California's growing pipeline of affordable housing through sustained investments and key reforms. These four key actions can make possible the affordable housing Californians need.

1 Invest Ongoing State Funding

An estimated $2.6 billion is needed in state subsidy to move the Pipeline forward to leverage state and federal LIHTC. These developments are poised to begin construction relatively soon, if funding were to be made available. Without this state subsidy ($148,1200/unit average), California will lose out on an estimated over $10 billion in leveraged federal and private dollars. California has the following primary subsidy programs for new affordable home construction:

- Multifamily Housing Program (MHP)
- Joe Serna, Jr. Farmworker Housing
- CalHome
- Veterans Housing and Homelessness Prevention Program (VHHP)
- Infill Infrastructure Grant Program (IIG) and IIG Catalytic program (IIGC)
- Affordable Housing & Sustainable Communities Program (AHSC)

With previous voter-approved state bonds and General Fund investments nearly exhausted, funding for subsidy programs is extremely limited. The most recent affordable housing bond, The Veterans and Affordable Housing Bond Act of 2018, for example, has expended nearly all its $4 billion. The most recent round of MHP was over-subscribed 7:1.

The Pipeline also needs an estimated $978 million in state tax credits to move these developments forward. Since 2020, $500 million per year in state tax credits has doubled housing production, but state tax credits are proposed by be cut from this year's budget.

Proposed budget cuts included in the Governor's January 2024 budget proposal would further deplete these programs. The proposed cuts eliminate nearly all (82 percent) of general fund allocations to housing production programs, leaving primarily the last remaining dollars from previous bonds and the dedicated revenue from the AHSC program. Importantly, AHSC is only designed to support a subset of developments that integrate affordable housing and sustainable transportation. California Housing Partnership estimates that the proposed cuts alone would reduce annual construction of new affordable homes by one third, or 6,400 affordable homes; $1.6 billion in federal resources would be lost.

State Subsidy Funding Available

Program	Current Funding Available	Funding Available with Proposed Cuts
MHP	$325M	$75M
Joe Serna	$131.5	$131.5
CalHome	$283.2M	$130.7M
VHHPP	$91M	$41M
IIG/IIGC	$285.5M	$85.5M
AHSC	GGRF continuous appropriation, averaging $449M/year for housing[3]	
Total	$1.6B	$912.7M

[3] AHSC has a 20 percent continuous appropriation from the Greenhouse Gas Reduction Fund; estimate based on a 3-year average of AHSC Rounds 5-7.

A 2024 affordable housing Bond Paves the Way to Future, Ongoing Funding

A new state affordable housing bond, as proposed in Assembly Bill 1657 authored by Assemblymember Buffy Wicks, would provide critical resources to keep the pipeline moving for the next several years. With previous funds nearly exhausted, a new bond would allow California to fund developments in the pipeline for new production as well as for preservation. According to the California Housing Partnership, the bond is estimated to fund:

- **28,495** new homes affordable to low-income families
- **93,195** affordable homes preserved, rehabilitated, and/or retrofitted
- **13,232** homeownership opportunities

Housing affordability and homelessness continue to be top issues for voters, and, especially with a state budget deficit, a bond presents an opportunity dedicate revenue to affordable housing without an impact on near-term budgets.

The 2024 Prop 1 initiative will also provide important, targeted resources that complement a statewide affordable housing bond in November. Prop 1 reforms the Mental Health Services Act and issues a $6.4 billion bond primarily for behavioral treatment facilities but also for permanent supportive housing. The bond is expected to fund 4,350 permanent supportive housing units to serve veterans and individuals with behavioral health and substance use disorders experiencing homelessness.

Ultimately, a permanent, ongoing source of funding is the most effective tool to meet California's housing goals and need. This would require a new revenue source or a dedicated allocation from an existing revenue source. The need for ongoing funding includes both capital investments and ongoing operating services funding to house people experiencing homelessness and people with the lowest incomes.

2 Curb Costs by Addressing System Inefficiencies

California can reduce development costs by better coordinating its housing finance system. The current system requires developments to apply to multiple state housing finance agencies to access subsidies, bonds, and tax credits. This leads to many inefficiencies, adds additional costs and further delays needed affordable homes.[4]

The state has made progress on this issue through the Multifamily Finance Super NOFA, which provides a single application process for several California Department of Housing and Community Development (HCD) programs. Further coordination and integration across agencies can build on this success to create a truly one-stop-shop funding system at the state level. The state should also pursue a unified funding application for homeless services funding, ideally as part of this single, unified application. A Medi-Cal benefit for housing support services would also simplify the process for accessing Medicaid dollars.

California could also follow in the footsteps of other states such as Oregon and Minnesota by implementing a waitlist for federally constrained funding like tax-exempt bonds and LIHTC. Many developments need to invest extensive time and resources to reapply to these programs due to oversubscription. Adopting a waitlist would make the system more predictable and efficient.

California should also allocate funding to developments without LIHTC, for a subset of cost-effective projects, especially when federal resources are oversubscribed. The state has already tested this approach through Homekey which has created 15,319 new affordable homes, and the California Housing Accelerator Program, which has unlocked 4,945 affordable homes. With a program like this, the state can circumvent federal limitations to keep the Pipeline moving.

3 Empower Local & Regional Jurisdictions to Do Their Part

Cities, counties, and regions also have a vital role to play in funding affordable housing. Right now, jurisdictions are held back from helping fund affordable housing to their fullest extent due to a 2/3 super-majority threshold required to pass local bond measures.

Assembly Constitutional Amendment 1, if passed by voters in November, would authorize local jurisdictions to raise funds for community needs, like affordable housing, if approved by 55 percent of voters. This measure, championed by Assemblymember Aguiar-Curry, would, among other provisions, open new possibilities for local jurisdictions to pass affordable housing bonds that their communities vote to approve. A similar pathway already exists for school district bonds.

Continued policy change is also needed to reduce local barriers and disincentives to build affordable housing. While the state has made significant progress in this arena already, primarily through streamlining, hurdles remain, especially in certain parts of the state. Land use constraints and disincentives continue to persist and impede affordable housing development across the state, preventing many development from ever entering the pipeline.

[4]Reid, Carolina., "The Costs of Affordable Housing Production: Insights from California's 9% Low-Income Housing Tax Credit Program." 2020. The Terner Center.

4 Reform Federal Programs

Federal investments and reform are critical to scaling affordable housing in California. The Pipeline needs both types of federal LIHTC, known as 4% and 9% LIHTC, named for the level of equity they provide; the Pipeline needs 9 billion and 4 billion, respectively. While there is a limited annual supply of 9% LIHTC, 4% LIHTC are available for any development with sufficient companion tax-exempt bond financing. Therefore, the state's supply of tax-exempt bonds is the primary determinant of access to 4% LIHTC.

An active effort in Congress, the Tax Relief for American Families and Workers Act of 2024 (H.R. 7024) contains two critical provision that would effectively expand LIHTC. The bill would reinstate the now expired 12.5 percent increase to 9% LIHTC and lower the current 50 percent tax-exempt bond threshold test to 30 percent for 4% LIHTC in 2024 and 2025. In lowering the test to 30 percent, fewer tax-exempt bonds would be required for each development, thus reducing the need for tax-exempt bonds from $8.2 billion to 4.9 billion. In practice, this would increase access to federal 4% LIHTC in California by two-thirds.

The California Pipeline Estimated Federal tax credit Need

$9B	4% LIHTC EQUITY	**$8.2B**	TAX-EXEMPT BONDS [6] *Under current 50 percent test scenario*
$4B	9% LIHTC EQUITY	**$4.9B**	TAX-EXEMPT BONDS *Under a 30 percent test scenario*

[5] This demand reflects the need for developments to request at least 50% of their total development cost in tax-exempt bonds, per federal law, to qualify for 4% tax credits. The Tax Relief for American Families and Workers Act of 2024 has the potential to lower this tax-exempt bond threshold to 30%.

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Summary

California has an appropriately ambitious goal of producing 1 million affordable homes over the next decade. Attaining this goal will not be possible unless state and federal programs are reformed and receive adequate funding to maintain a steady pipeline of affordable housing development.

The significant resources needed to move the state's pipeline of affordable homes to construction demands action from all levels of government - local, regional, state and federal. It is only through this all-in approach that California will be able to achieve scalable solutions that meet the needs of California communities.

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Methodology

Analysis of the 2024 California Affordable Housing Pipeline was completed by Enterprise Community Partners in March 2024. The analysis estimated the near-term affordable housing pipeline, which we define as affordable housing developments that have already received some amount of funding from HCD and/or applied for, but have not yet been awarded, low-income housing tax credits and bonds – the last step needed to secure all the funding needed to move shovel-ready developments to construction. The analysis included the following publicly available state data sources:

- 2021-23 4% and 9% Tax Credit Applicants and Awards; 2024 Round 1 9% Applicants
- 2021 & 2023 Infill Infrastructure Grant Program Applicants and Awards
- 2021 Multifamily Housing Program Applicant List
- Affordable Housing and Sustainable Communities Program Round 5-7 Applicants and Awards
- California Housing Accelerator Tier 1 Awards & Tier 2 Pipeline
- California Housing Accelerator 2022 Awards
- Multi-Family Finance Super NOFA Round 1 Applicants and Awards & Round 2 Applications
- Housing for a Healthy California 2021 Awards
- CalHFA Mixed-Income Program 2021-23 Awards
- HOME 2021 Awards & Applications

Duplicate developments were identified and removed using project name, cross-referenced for city, county, developer, and/or unit count if available. Developments that have already received affordable housing tax credits and/or tax-exempt bonds or an award from the California Housing Accelerator Program were removed from the analysis as they no longer require funding.