LOW INCOME HOUSING TAX CREDIT PROGRAMS
QUALIFIED ALLOCATION PLAN

The federal low-income housing tax credit program was established by Section 252 of the Tax Reform Act of 1986 and was codified as Section 42 of the Internal Revenue Code of 1986, as amended (IRC Section 42). The Revenue Reconciliation Act of 1989 amended IRC Section 42 by adding Section 42(m) that requires allocating agencies to allocate low income housing tax credits pursuant to a Qualified Allocation Plan (QAP or Plan). California Health and Safety Code Section 50199.10 designates the Tax Credit Allocation Committee (TCAC or Committee) as the state agency responsible for implementing the federal and state low income housing tax credit (the Credit) programs in California. The specific provisions of the Revenue Reconciliation Act of 1989 (the Act of 1989), the modifications enacted by the Revenue Reconciliation Act of 1990, the Revenue Reconciliation Act of 1991 and the Revenue Reconciliation Act of 1993 regarding qualified allocation plans, are set forth below in subsections of IRC Section 42(m)(1) as amended on January 3, 2005:

(B) QUALIFIED ALLOCATION PLAN
For purposes of this paragraph, the term 'qualified allocation plan' means any plan-

- (i) which sets forth selection criteria to be used to determine housing priorities of the housing credit agency which are appropriate to local conditions,
- (ii) which also gives preference in allocating housing credit dollar amounts among selected projects to-
  - (I) projects serving the lowest income tenants, and
  - (II) projects obligated to serve qualified tenants for the longest periods, and
  - (III) projects which are located in qualified census tracts (as defined in subsection (d)(5)(C)) and the development of which contributes to a concerted community revitalization plan, and
- (iii) which provides a procedure that the agency (or an agent or other private contractor of such agency) will follow in monitoring for noncompliance with the provisions of this section and in notifying the Internal Revenue Service of such noncompliance which such agency becomes aware of and in monitoring for noncompliance with habitability standards through regular site visits.

(C) CERTAIN SELECTION CRITERIA MUST BE USED
The selection criteria set forth in a qualified allocation plan must include-

- (i) project location,
- (ii) housing needs characteristics,
- (iii) project characteristics, including whether the project includes the use of existing housing as a part of a community revitalization plan,
- (iv) sponsor characteristics,
- (v) tenant populations with special housing needs,

(vi) public housing waiting lists~~.~~
(vii) tenant populations of individuals with children, and
(viii) projects intended for eventual tenant ownership.

(D) APPLICATION TO BOND FINANCED PROJECTS
Subsection (h)(4) shall not apply to any project unless the project satisfies the requirements for allocation of a housing credit dollar amount under the qualified allocation plan applicable to the area in which the project is located.

CALIFORNIA'S HOUSING NEEDS

California's rental housing problems are diverse, severe, and worsening. On a statewide basis, California needs many more new rental housing units than are being produced annually. Although the state's housing stock is relatively young (in 2000 about 49% of the stock was more than 31 years old), it is aging and deteriorating. By 2000, less-than-ten-year-old-housing had declined to 13% of all units, down from 22.9% in 1990. The average household size for renter households is 2.8 people, just under the average household size for all households (2.9).

The majority of Californians live in decent housing which they can afford. However, this observation obscures the serious housing problems still encountered daily by many residents. Several housing issues deserve special attention, including affordability, availability, condition of the housing stock, and the special needs of specific renter groups within the general population. Overall, affordability problems are the most common housing problem faced by Californians.

Since low income housing tax credits are available only for rental housing, this section presents findings and analysis related to the condition, supply and cost of rental housing. In California, 43% of all households are renters. This is a considerably higher percentage than the national rate of 34%. The data presented below do not serve as a comprehensive statement of California's housing problems. The purpose of the data is to assist the Committee in establishing priorities for award of Credits in our state.

Affordability: Although California is expected to experience an expanding economy throughout the decade, lower overall wages associated with the expanding service and information sectors of the economy portend an increasing housing affordability problem. This is expected particularly in areas already experiencing housing shortages, where increased demand for apartments drives up rents.

It is generally accepted that households who have to pay more than 30% of their income for rent are paying too much. By paying a disproportionately higher share for housing, these households have insufficient funds available for food, medical care, transportation and education. In its 2005-2010 Consolidated Plan, the Department of Housing and Community Development (HCD) included data reflecting that more than 1.8 million lower income households pay more than 30% of their income for rent (36.5% of all renter households). Approximately 76% of all very low-income renters (i.e. renters with incomes at or below 50% of the area median income) paid more than 30% of their incomes for rent.

The Committee has adopted as its base measurement of affordable rental housing need in California the proportion of renter households paying 35% or more of income for rent. The following tables illustrate the depth of the affordability problem and the rationale for the base measurement:

CALIFORNIA RENTER HOUSEHOLDS
(Source: 2000 U.S. Census, DP1, DP4)

Household Type	Number of Units	Percentage of Renter Occupied
Renter Households	4,921,581	100%
Renter Households Paying 35% or More for Rent	1,677,934	34%

Over one-third of California's renter households pay more than 35% of their income to rent.

35% OR MORE OF INCOME SPENT FOR RENT
BY HOUSEHOLD INCOME
(Source: 2000 U.S. Census, SF3: H73)

Household Income	Number	Percent
Less than $10,000	489,023	29%
$10,000 to $19,999	632,774	38%
$20,000 to $34,999	417,951	25%
$35,000 or more	138,186	8%
Total Renters Paying 35% or More for Rent	1,677,934	100%

The median income of all California households in 2000 was $47,288. For renter households the median income was $31,912, barely half that of homeowners ($62,153). Ninety-two percent of households with rent burdens of 35% or more earn less than $35,000 annually, and 29 percent earn less than $10,000 annually, with very few renters (8%) having annual incomes over $35,000. (California's median income has increased thirty-three percent during the1990s.)

RENTER HOUSEHOLD RENT BURDEN
BY MEDIAN INCOME GROUP
(Source: CHAS Data Book)

	Renter Household Incomes as a Percentage of Median Household Income		
Percentage of Gross Income	0%-30%	31%-50%	51%-80%
30% or More of Income for Rent	767,192 (76.7%)	610,390 (75.1%)	428,597 (42.8%)
50% or More of Income for Rent	637,159 (63.7%)	243,831 (30.0%)	67,093 (6.7%)

Availability: As California's economy grows, so does the demand for housing. As of January 2006, data reported by the State Department of Finance shows that between 1990 and 2006, population in the state increased by 24.9%. However, in the same period, the number of housing units in the state increased by only 17.5%. In its 2005-2010 Consolidated Plan, HCD reports an average of at least 220,000 housing units need to be built annually through 2020 to accommodate California's population growth. Unfortunately, there has been a dramatic drop in the production of multi-family rental units since the late 1980's. The production of multi-family units peaked in 1986 when 168,000 units were built. By 1993, the annual production had dropped to about 14,475 units, about one-fourth of 1990 production of 60,494 units. In 2005, multi-family unit production has continued to show signs of recovery, with construction reaching approximately 53,650 units.

Low vacancy rates have long been viewed as evidence of housing shortages. Vacancy rates for rental housing vary for market areas around the state and not all markets in California suffer from low vacancy rates. HCD reports that a healthy vacancy rate runs around 6% to 7% of all units. A statewide total vacancy rate of 6% to 7% usually ensures sufficient numbers of available units for rent or purchase. HCD's data show a decline in both the statewide and selected market vacancy rates in the period from 1990-2000. In 2000, HCD reports the statewide market vacancy rate was 5.8%, but this rate is not uniform throughout the state. Counties with serious housing shortages, as reflected by low (less than 5%) rental vacancy rates, are as follows

Counties with Rental Housing Vacancy Rates Below Five Percent
(Source: 2000 U.S. Census, DP1)

Metropolitan Counties

Alameda	2.5	San Francisco	2.5
Contra Costa	2.7	San Joaquin	3.8
Imperial	4.9	San Luis Obispo	3.2
Los Angeles	3.3	San Mateo	1.8
Madera	4.5	Santa Barbara	2.8
Marin	2.2	Santa Clara	1.8
Merced	4.2	Santa Cruz	2.5
Monterey	2.9	Solano	3.7
Napa	2.8	Sonoma	2.4
Orange	3.0	Stanislaus	3.2
Sacramento	4.8	Sutter	4.8
San Benito	2.7	Ventura	2.6
San Diego	3.1	Yolo	3.4

Non-metropolitan Counties

Amador	4.4
Colusa	3.0
Humboldt	4.7
Mendocino	3.3
Nevada	3.1

Threatening to exacerbate the affordable housing shortage is the imminent conversion of subsidized low-income rental units, assisted by the U. S. Department of Housing and Urban Development (HUD) to market-rate units. Most of the subsidies were conditioned on restricting occupancy in the housing to low-income residents for a period of from 20 to 30 years. According to information reported by the California Housing Partnership Corporation (November 2006) based on data provided by HUD and the U.S. Department of Agriculture (USDA), as many as 1,000 developments in California, comprising 66,000 units, are at risk of conversion within five years. In addition, many developments are operating under state- and locally-mandated use restrictions that are expiring. Many of these projects are eligible for conversion. While Congress mandated in 1990 that HUD offer incentives to owners to maintain this housing for low-income families, Congress made significant program modifications that resulted in market-rate conversion of several thousand units.

Condition of the Housing Stock: Another aspect of California's housing problem is the condition of the stock. As of Census 2000, 49% of the statewide housing stock was more than 31 years old. By 2000, less-than-ten-year-old-housing declined to 13% of all units, down from 20% in 1990. According to Census 2000, more than 1.15 million housing structures were built prior to 1940. At sixty years and older, many of these residential units are substandard and need rehabilitation or replacement. Of these older structures, about half consist of rental housing occupied by lower-income households who are more likely to be occupying substandard units than households with greater incomes.

Special Needs of Specific Renter Groups: HCD's Consolidated Plan identifies numerous groups which face specific housing problems. These include, among others, the homeless, large families, seniors, physically handicapped, people with developmental disabilities, farm workers, and female-headed households.

Lack of sufficient incomes to afford adequate housing is the key problem common to all these groups. However, the lack of suitable housing, or the unavailability of a variety of unit sizes and housing types, is a problem faced by several of these groups. The private sector, unassisted by government, does not produce sufficient numbers of apartments containing three or more bedrooms to accommodate families with five or more members. As of the 2000 Census, the average household size for renter households increased from 2.74 in 1990 to 2.79. More than 15% of all California households were overcrowded, with approximately 1,186,336 overcrowded renter households statewide. Overcrowding was most common among low-income households, and most prevalent in renter housing. The 2000 census estimated that 24% of renter households statewide were overcrowded, with the proportion of overcrowded renters reaching nearly one-third in some counties.

The housing difficulties faced by the homeless population, or others with extremely low incomes, perhaps are the most severe. Producing housing which can be afforded by persons who receive, for example, only general assistance payments, is virtually impossible even with government subsidies. Single Room Occupancy (SRO) housing, offering very low rents, comes closer than other housing types to serving those whose only income is general assistance. Clearly, SROs are not suitable for all low-income persons. Still, SROs are currently serving many singles and some couples, of all ages, who would otherwise likely be homeless. Preservation of existing SROs needing rehabilitation is of critical importance. Construction of new SROs is also necessary in some areas of the state.

Homelessness: According to the U.S. Department of Health and Human Services, chronic homelessness is associated with extreme poverty, poor job skills, lack of education and serious health conditions such as mental illness and chemical dependency. Data suggests that on any given day, homeless individuals in California exceed 360,000. Of the total homeless population, approximately two-thirds are single adults with the remaining one-third being families. Based on average family size, it is estimated that between 80,000 and 90,000 California children are homeless. Approximately 30% of California’s homeless population, or 108,000 individuals, are classified as chronically homeless.

Conclusion: Many California renters are forced to pay too high a percentage of their limited incomes for housing. Some are forced to live in overcrowded conditions either because they cannot afford appropriately sized units or a shortage of larger units exists. Very low income renter households more often than other households live in substandard units. Special renter populations have special housing needs which the private sector, without governmental assistance, does not adequately serve. Given these conclusions, one of the key objectives of the Credit programs is to encourage development of a variety of housing types at affordable rents to appropriately serve each of these populations.

GENERAL OBJECTIVES OF THE PLAN

Neither the federal nor the state Credit programs are entitlement programs. Both the federal government and the state government have established annual ceilings on the dollar amount of such Credits which may be allocated to qualifying projects, and detailed eligibility standards and priority uses for available Credits. Credits are awarded following a competitive process. In furtherance of the statutory provisions affecting the Credit programs, the Committee has established the following objectives for allocating Credits in California.

- To maximize the number of affordable rental housing units added to the existing housing stock;
- To allocate Credits to rental housing developments which provide the greatest overall public benefits;
- To allocate all Credits;
- To encourage development and preservation of appropriate rental housing types for households which have difficulty finding suitable and affordable rental housing in the private marketplace without governmental assistance;
- To enable substantial rehabilitation of existing rental housing in order to prevent losses to the existing supply of affordable apartments;
- To prevent the loss from the existing stock of low income rental housing of those apartments under expiring contracts with federal agencies or subject to prepayment which, without the allocation of Credits, would be converted to market rate apartments;
- To maximize the utilization of Credits;
- To provide an equitable distribution of Credits across the state; and
- To provide opportunities for participation in the Credit programs to all qualified sponsors of low income rental housing.

SPECIFIC OBJECTIVES OF THE PLAN

In addition, in allocating Credits, the Committee aims to achieve specific federal and state objectives. These are:

- To use Credits in connection with rental housing "projects serving the lowest income tenants";
- To use Credits in connection with rental housing "projects obligated to serve qualified tenants for the longest periods";
- To distribute Credit by apportioning federal tax credit among proposals targeting low-income populations -- including large families, homeless persons, persons with special needs, and senior citizens;
- To hold competition among only those projects considered sound investments of public funds;
- To expend public funds in the minimum amount necessary to achieve program goals; and,
- To administer the Credit program in a manner that encourages timely project completion and occupancy.

Further, the Committee intends to make every effort to coordinate with other state housing agencies, including HCD and the California Housing Finance Agency (CHFA) and local housing agencies. Besides seeking to synchronize administrative requirements, such as application cycles and submission requirements, the Committee also seeks to maximize the use of funding available from HCD, CHFA and local agencies.

PROGRAM ADMINISTRATION

The Committee has adopted regulations to implement the federal and state low-income housing tax credit programs. The regulations, adopted as California Code of Regulations, Title 4, Division 17, Sections 10300 through 10337, are incorporated by reference in full with respect to the Qualified Allocation Plan.

AMENDMENT OF PLAN

This Plan may be modified by the Committee from time to time through formal modifications to Committee regulations, following consideration of comments received at a properly noticed public hearing. After such hearing, this Plan may be amended by the Committee at a properly noticed Committee meeting at which time such amendments may be considered and approved or disapproved. Any such amendments approved will take effect immediately upon adoption by the Committee and approval by the Governor, or such later time as may be specified in a Committee resolution.