State Board of Equalization Meeting
Property Tax Abatement Work Group
450 N Street, Auditorium, Sacramento
Wednesday, July 27, 2022

ABCs of JPAs
SPUR and Terner Center

Property Tax Incentive Programs

- Property tax incentive programs for affordable housing are not new.
- Programs in Washington, Illinois, Texas and New York have been successful in using property tax exemptions to entice private developers to voluntarily produce thousands of deed-restricted housing units, which are price restricted and rented only to those with lower income levels over a set period of time.
- By offering property tax exemptions of varying degrees, these programs eliminate the need for scarce traditional affordable housing funding sources, such as Low-Income Housing Tax Credits or direct state subsidies.
- California's Proposition 13 and structure of the existing Property Tax Welfare Exemption impose limitations to program design and function that other states do not share.

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State Program	Washington State Multifamily Tax Exemption	New York City 421(a) Property Tax Exemption	Texas Section 303.043(f) Property Tax Exemption for Public Facility Corporations
How many units must be deed-restricted?	At least 20% of the total residential units must be deed-restricted affordable. If the project is owner-occupied, all units must be affordable.	Between 25% and 30% of total residential units must be deed-restricted, depending on the year of construction.	Either at least 20% of units must be reserved as public housing or at least 50% of all units must serve low-income households.
Affordability breakdown	Ranges from 40% AMI to 90% AMI, with nine requirements varying across unit types (e.g., one-bedroom units must serve households at or below 70% AMI to qualify).	Ranges from 40% AMI to 130% AMI depending on option selected by developer (e.g., one option requires 10% at 40% AMI, 10% at 60% AMI and 5% at 130% AMI).	Ranges from 50% AMI to 80% AMI for a certain percentage of units.
Term of affordability	Eight or 12 years depending on exemption period	Varies based on the year that units became available, ranging between 20 and 35 years	Typically a minimum of 15 years
Exemption period	Eight or 12 years	Between 20 and 35 years	In perpetuity so long as affordability is maintained
Estimated impact	34,885 new units (21% affordable) between 2007 and 2018	117,000 units between 2010 and 2019	8,906 units between 2015 and 2019

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JPAs for Middle-Income Housing

- Recently a model has been developed and utilized in California to acquire and preserve units affordable to middle-income households — those who earn between 80% and 120% of the Area Median Income (AMI). In exchange, the housing project receives tax benefits, eliminating the need for direct public funding.

- This model is a **Joint Powers Authority** or JPA — a structure in which public entities join together to address a common problem.

- The first JPA in California to acquire housing and make it affordable to middle-income households was formed in Santa Rosa in 2019. Since then, over 40 JPA acquisition deals totaling at least 13,800 units have been approved in California.

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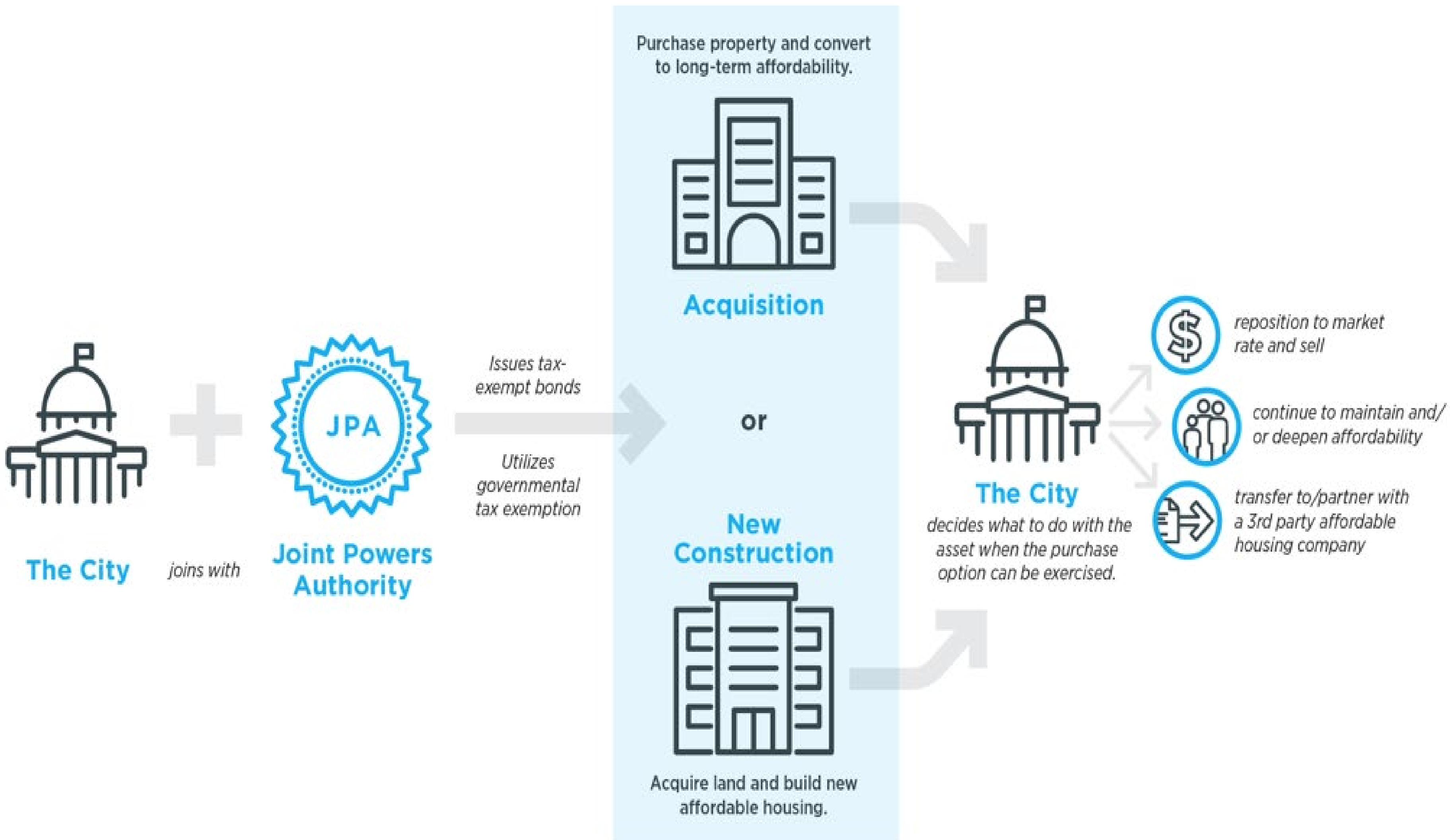

The City
joins with
JPA
Joint Powers Authority
Issues tax-exempt bonds
Utilizes governmental tax exemption
Purchase property and convert to long-term affordability.
Acquisition
or
New Construction
Acquire land and build new affordable housing.
The City
decides what to do with the asset when the purchase option can be exercised.
reposition to market rate and sell
continue to maintain and/or deepen affordability
transfer to/partner with a 3rd party affordable housing company

Financing Middle-Income Housing

- **CalHFA's Mixed-Income Program** is structured to encourage 100% affordable housing deals to include some middle-income units in buildings with lower-income units.

- In SPUR's view, we should maximize the number of lower-income units in 100% affordable developments that are already using various subsidy sources and create new property tax incentives for market-rate developments to include middle-income housing units that wouldn't otherwise be provided by the market.

- In this scenario, the building would pay the local property taxes and then, when filing taxes, receive a credit or refund from the State's Franchise Tax Board.

California's Property Tax Welfare Exemption

- The Welfare Exemption is only available to nonprofit organizations operating for charitable purposes.
- For-profit, market-rate developers and owners cannot access this exemption.
- An amendment to the California Constitution would be required to change this.

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Property Tax Credit/Refund

- Therefore, SPUR is proposing a pilot program and advocating that a targeted state tax credit/refund be included in the State Budget against local property taxes paid on market-rate properties that include deed-restricted units affordable to middle-income households.

- This proposal would keep local jurisdictions whole while creating a meaningful incentive for for-profit, market-rate developers to include middle-income housing in their buildings.

- This proposal doesn't require any amendments to the California State Constitution or change the distribution formula for local property taxes to the taxing entities under Proposition 13.

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