



A Tradition of Stewardship  
A Commitment to Service

Agenda Date: 4/23/2019

Agenda Placement: 11B

## NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

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**TO:** Board of Supervisors

**FROM:** Minh Tran - County Executive Officer  
County Executive Office

**REPORT BY:** Molly Rattigan, Deputy County Executive Officer - 253-4112

**SUBJECT:** SB 9 (Beall) Sale of State Low Income Housing Credits Beyond 2020

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### **RECOMMENDATION**

County Executive Officer, on behalf of the Legislative Subcommittee, requests approval of and authorization for the Chair to communicate to the State Legislature and other pertinent parties support for SB 9, a bill that removes the sunset date to permit developers to sell low income housing tax credits to an investor. (Unanimous vote required)

### **EXECUTIVE SUMMARY**

SB 9 would remove the sunset to permit developers to sell low income housing tax credits to an investor beyond January 1, 2020. The tax credit program has been used to fund many of the affordable housing projects in Napa County and is a valuable funding source.

### **PROCEDURAL REQUIREMENTS**

1. Staff reports
2. Public comments
3. Motion, second and vote on item

### **FISCAL IMPACT**

Is there a Fiscal Impact?                      No

### **ENVIRONMENTAL IMPACT**

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of

Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

### **BACKGROUND AND DISCUSSION**

The Low Income Housing Tax Credit (LIHTC) program was enacted by Congress in 1986. The LIHTC program provides the market with an incentive to invest in more affordable housing through federal tax credits. The California Tax Credit Allocation Committee (CTCAC) was directed to award these credits to developers of qualified projects in the state. Developers sell these credits to investors to raise capital for their projects, reducing the debt that the developer would otherwise have to borrow. As a result, property owners are able to offer lower, more affordable pricing. In response to the high cost of developing housing in California, in 1987 the Legislature authorized a state low-income housing tax credit program.

In response to the high cost of developing housing in California, the Legislature in 1987 authorized a state low-income housing tax credit program to leverage the federal credit program. Unfortunately, state taxes are deductible from federal taxable income, meaning that investors reducing their state tax liability with the state LIHTC must then pay taxes on their higher federal income as a result of losing their state tax deduction. With the federal corporate tax rate at 35%, this means that investors claiming state LIHTC's generally pay no more than 65 cents for each dollar of state credit. In other words, for every dollar the state invests in this critical program, the federal government currently takes 35 cents.

In 2016, California enacted legislation that permitted a developer who receives an award of state LIHTCs to sell the credits to an investor without requiring the investor to be part of the project ownership. Under federal and state tax laws, tax credits that are bought by an investor are considered a payment of the investor's tax rather than a reduction in their tax liability. As a result, purchased credits do not reduce the taxpayer's federal deductions.

To date, CTCAC and the California Housing Partnership Corporation have data to show the value of the tax credits has increased by 14 cents, or closer to 80 cents on the dollar, when utilizing this new structure. This increased value means more housing units for the state without any additional costs to taxpayers.

This provision sunsets on January 1, 2020.

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### **SUPPORTING DOCUMENTS**

A . SB 9

B . SB 9 Fact Sheet

CEO Recommendation: Approve

Reviewed By: Helene Franchi