RESEARCH REPORT

Opportunity, Race, and Low Income Housing Tax Credit Projects

An Analysis of LIHTC Developments in the San Francisco Bay Area

by Phuong Tseng, Heather Bromfield, Samir Gambhir, and Stephen Menendian

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The Haas Institute for a Fair and Inclusive Society at UC Berkeley brings together researchers, community stakeholders, policymakers, and communicators to identify and challenge the barriers to an inclusive, just, and sustainable society and create transformative change. The Haas Institute advances research and policy related to marginalized people while essentially touching all who benefit from a truly diverse, fair, and inclusive society.

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KEY FINDINGS

- Housing projects financed by the LIHTC in the Bay Area were relatively well distributed across boundaries of opportunity, although there was variability depending on program type, project year, and project type (See Charts 1, 2b, and 3a).

- Nine Percent Tax Credit projects outperformed the Four Percent Tax Credit in financing projects in higher opportunity neighborhoods. For example, Nine Percent Tax Credit projects were more likely to be sited in Very High opportunity neighborhoods than Four Percent Tax Credit projects (25.7% versus 17.5%) (See Table 1).

- More than 45% of Large Family projects were sited in Low and Very Low opportunity areas. In particular, Large Family New Construction projects and units were disproportionately placed in low-opportunity areas, where resources for families with children are inadequate to support healthy development and upward mobility (See Table 3 and Appendix Table 8).

- A large plurality of Nine Percent Tax Credit Acquisition and Rehabilitation projects were sited in Very High opportunity neighborhoods, and these projects robustly outperformed both Nine Percent New Construction projects and Four Percent Tax Credit projects of all types (See Chart 2b).

- While more Nine Percent Acquisition and Rehabilitation projects were sited in Very High opportunity neighborhoods than other project types, changes are needed to reduce the percentage of Nine Percent and Four Percent projects in both the New Construction and Acquisition and Rehabilitation categories that are sited in Low and Very Low opportunity areas (See Table 2).

- More than 61% of LIHTC developments and awards were dispersed in areas where over 60% of the population were people of color (See Table 4).

- In neighborhoods with populations that were majority-people of color, there were three times the amount of LIHTC projects than majority-white neighborhoods. Additionally, the ratio of Nine Percent Tax Credit units in majority-people of color neighborhoods to majority-white neighborhoods was 3.78:1. These findings demonstrate that there is much to be desired in terms of promoting LIHTC projects in racially integrated areas (See Tables 4 and 5).

INTRODUCTION

The Low Income Housing Tax Credit (LIHTC) program is the largest federal housing program in the United States, redirecting hundreds of millions of dollars per year in funds towards the creation and preservation of low-income rental housing. Indirectly subsidized by federal coffers, states enjoy enormous discretion in administering the program, with each state establishing its own criteria for awarding the tax credit.

The Haas Institute for a Fair and Inclusive Society at UC Berkeley analyzed LIHTC data from the California Department of Housing and Community Development (HCD) and the California Tax Credit Allocation Committee (TCAC) on housing projects financed by the tax credit within the San Francisco Bay Area.[1] The intention was to understand the temporal and spatial patterns of LIHTC developments from 1987–2014, including projects financed with both federal Four Percent (4%) and Nine Percent (9%) Tax Credits.[2] To assess the state's efficacy in promoting housing opportunities for low-income Californians in well-resourced, racially integrated neighborhoods, this report analyzes project categories by neighborhood opportunity and demographic composition:

Opportunity Analysis

- LIHTC projects
- LIHTC units
- Total Awards[3]
- Acquisition, Rehabilitation, and New Construction[4]

Demographic Analysis

- Large Family[5] projects
- Race-based analysis

We utilized UC Davis' Center for Regional Change Regional Opportunity Index (ROI) methodology and their place-based data to recalculate the opportunity index for the Bay Area at the census tract level, as displayed in Map 1 in the Appendix.[6] Additional data were gathered from the U.S. Census Bureau American Community Survey (ACS).

This comprehensive report shows that LIHTC developments in the Bay Area are relatively well spread across boundaries of opportunity. We also find that the Nine Percent Tax Credit outperforms the Four Percent in financing projects in higher opportunity neighborhoods. Furthermore, based on a 2015 report published by the United States Department of Housing and Urban Development Office of Policy Development and Research, California's LIHTC funding allocation

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1 The IRS administers the LIHTC program to states, while the California Tax Credit Allocation Committee determines how the two federal tax credits are allocated within California. Refer to page 2 of the Description of California Tax Credit Allocation Committee Programs via http://www.treasurer.ca.gov/ctcac/program.pdf.

2 The Four Percent and Nine Percent Tax Credits indicate that housing projects are eligible for different levels of tax credit financing. For the Four Percent Credit, the dollar amount of the tax credits is 30% of the qualified costs of a housing project, while for the Nine Percent Tax Credit, the tax credit value is 70% of the qualified costs. See Novogradac, Michael J. 2002. *Novogradac Renewable Energy Tax Credit Handbook-2010 Edition.* Novogradac & Company LLP, June 1.

3 Federal and state contributions were aggregated by multiplying federal awards by 10 years of tax credits and adding the one-time state award to obtain the sum of awards categorized as "Total Awards."

4 Acquisition/Rehabilitation and New Construction are the two different construction classifications that help determine the eligibility basis and building calculation. Novogradac, Michael J. 2002. *Novogradac Renewable Energy Tax Credit Handbook-2010 Edition.* Novogradac & Company LLP, June 1.

5 Large Family is defined in the California Tax Credit Allocation Committee Code of Regulation Section 10325(g)(1)(A). Prior to 2016, Large Family projects were defined by having at least 25% of units with apartments that have three or more bedrooms. http://www.treasurer.ca.gov/ctcac/programreg/2015/20150121/regulations.pdf.

6 The Regional Opportunity Index has two indices: People-based and Place-based. Our analysis used the place-based index because we are interested in understanding and assessing the spatial patterns of LIHTC developments at the census tract level. The 2014 ROI data are accessible via http://interact.regionalchange.ucdavis.edu/roi/data.html. The Haas Institute served on the peer review committee and assisted the Center for Regional Change in developing the ROI methodology.