City of San Jose
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Toni J. Taber, CMC
City Clerk

SUBJECT: SEE BELOW

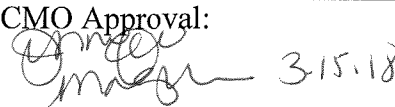**DATE:** March 22, 2018

SUBJECT: **AB 2562 (Mullin), Housing and Community Development Authority (HCD) to Adjust Interest Rates.**

RECOMMENDATION: As recommended by the Rules and Open Government Committee on March 21, 2018, adopt a position of Support for AB 2562 (Mullin), HCD Authority to Adjust Interest Rates.
[Rules Committee referral 3/21/18 - Item G.2]

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

CITY COUNCIL ACTION REQUEST			
Department(s):	**Date:**	**Coordination:**	**Dept. Approval:** /s/ Jacky Morales-Ferrand
Housing	3/14/18	City Attorney's Office City Manager's Office	
			CMO Approval: ~~signature~~ 3·15·18

SUBJECT: AB 2562 (Mullin), HCD Authority to Adjust Interest Rates

RECOMMENDED POSITION: Support

RECOMMENDED ACTION:

1. Adopt a position of Support for AB 2562 (Mullin), HCD Authority to Adjust Interest Rates.

2. Place this item on the March 27, 2018, City Council Agenda so the City's Legislative Representative can advocate the City's support for AB 2562.

BILL SYNOPSIS:

Under current law, the California Department of Housing and Community Development (HCD) has authority to reduce its interest rate on loans for affordable housing developments to as low as 0.42% for certain loans on projects that are also awarded Low Income Housing Tax Credits (LIHTC). HCD also has the authority to increase the interest rate on certain loans as high as the federally-published Applicable Federal Rate (AFR), which is currently 3.27% for the 30% present value low-income housing credit.[1]

AB 2562 would increase HCD's authority to adjust its interest rate on loans for LIHTC developments. It would remove several existing requirements needed for HCD to take such an action. This includes requiring a percentage of extremely-low income apartments, and the absence of debt on a senior lien on the development. The bill would give HCD additional flexibility to consider the development's overall feasibility and the consistency of the developer's funding request with the goals and purpose of HCD programs. It would also make a technical clarification that the maximum AFR permitted is the AFR in place at the time the loan extension and transaction is closed.

IMPACTS TO CITY OF SAN JOSÉ:

LIHTCs are a key source of funding for affordable housing nationally. In San José, it is estimated that more than 90% of the City's restricted affordable portfolio is financed by LIHTCs. The 2017 Federal Tax Reform bill lowered the corporate tax rate from 35% to 21%. The effect of the lowered tax rate has reduced the value of LIHTCs to corporate investors. The lowered value of credits has created financing gaps in prospective affordable housing projects. AB 2562 would allow HCD to assist affordable housing developers by reducing its debt burden on developments, therefore enhancing developments' financial feasibility.

The City of San José has adjusted interest rates on past loans to support affordable housing development. Allowing flexibility of interest rates at the State level will help affordable housing projects adapt to the fluctuating price of LIHTCs. In addition, there is a potential Statewide bond authorized in 2017 by SB 3 that

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[1] Applicable Federal Rates (AFR) for March 2018: https://www.irs.gov/pub/irs-drop/rr-18-06.pdf

responsive to market conditions will enhance the feasibility for current and future San José affordable housing developments.

| **POLICY ALIGNMENT:** |
| This bill aligns with the Council-approved *2018 Legislative Guiding Principles and Priorities* in that it would:
• Create new financing tools for local government to support economic development and build affordable housing. |

| **SUPPORTERS/OPPONENTS:** |
| Support: Non-Profit Housing Association of Northern California (NPH)

Opposition: No listed opponents at this time. |

| **STATUS OF BILL:** |
| On March 18, AB 2562 was referred to the State Assembly Housing and Community Development Committee. A hearing date has not yet been set. |

| **FOR QUESTIONS CONTACT:** Jacky Morales-Ferrand, 408-535-3851 |