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Property Tax Exemptions to Facilitate Affordable Housing: Lessons from California

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Introduction

Since 2020, over 160,000 homes in California that were formerly identified as unsubsidized affordable housing are no longer affordable to low-income households.[1] This consistently high loss of unsubsidized housing, coupled with insufficient new construction to meet the needs of low-income households, places thousands of families in a precarious position each year. There is a need to scale approaches outside the traditional affordable housing finance system that can add to the supply of lower-cost units.

One potential model is to increase the use of property tax exemptions, which can enable both new construction and preservation of affordable housing, without relying on oversubscribed existing subsidies such as Low-Income Housing Tax Credits (LIHTC) and the HOME program.

In California, the Property Tax Welfare Exemption ("Welfare Exemption") releases owners of subsidized housing from paying property taxes, provided that the ownership entity and the renter households meet certain criteria.

Projects using LIHTC—the main source of funding for affordable housing—already typically utilize the Welfare Exemption, as long as the owner is a nonprofit organization or partners with a nonprofit.

But the Welfare Exemption can also be used to build or preserve housing that serves households at or below 80 percent of Area Median Income (AMI), even without traditional sources of affordable housing public subsidy, if certain criteria are met. The main criteria are that owners must be a nonprofit or partner with a nonprofit; owners must receive some form of public financing or subsidy for their project, such as local, state, or federal grants or bonds; and units must be restricted to and occupied by households earning 80 percent or below of AMI.

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This paper explores options for utilizing the Welfare Exemption without LIHTC or other significant forms of public financing or subsidy. Drawing on interviews with two dozen individuals, including both for-profit and nonprofit affordable housing developers and finance professionals, this paper identifies opportunities for changes to the Welfare Exemption so that it more effectively spurs the creation of affordable housing, while establishing guardrails to ensure public benefits.

What is California's Property Tax Welfare Exemption?[2]

The Property Tax Welfare Exemption was created through a voter-enacted constitutional amendment in 1944, which gave the California legislature the authority to exempt property "used exclusively for charitable, hospital, or religious purposes, and owned or held in trust by nonprofit organizations" from property taxes. The operation of rental housing affordable to low-income households qualifies as a charitable purpose under this definition.

The Welfare Exemption is co-administered by the state Board of Equalization (BOE) and county assessors. The BOE determines whether an organization is eligible for the exemption by verifying whether it operates exclusively for one or more of the qualifying purposes.[3] The county assessor then determines whether an organization's specific property qualifies for the exemption based on the property's charitable use.

To be eligible for the exemption, the developer must be a nonprofit or have a nonprofit partner as part of the ownership structure (for example, as a limited partner in a corporate partnership), and must receive a direct subsidy or an insured loan from a public agency.[4]

The county assessor grants exemptions for qualifying, occupied units provided that the households living in the units earn 80 percent of Area Median Income (AMI) or below. The exemption is granted based on the percentage of units occupied by or made available for rental to low-income households. In addition to securing government financing or subsidy, the owner must verify the income of existing tenants (i.e., at 80 percent or below of AMI), and adjust the rent if necessary to conform to allowable affordable rents in the area per California Tax Credit Allocation Committee guidelines.

Establishing Eligibility for the Welfare Exemption

For tenants who are over-income, the owner will wait until that tenant leaves voluntarily, and then reset the unit to a deed-restricted, below-market unit, with an income-qualified tenant—making the unit eligible for the exemption. For this to work, the number of existing tenants who are over-income generally must be low; otherwise, not enough units qualify for the exemption at the time of acquisition, limiting project feasibility.

To verify tenants' incomes, the owner must collect signed statements from tenants and provide information to assessors regarding the number of people in each household and the maximum income for the household—information that can be challenging and time-consuming to obtain. Once tenants are income-verified, the county assessor's office will grant the exemption on a per-unit basis.[5] The Welfare Exemption can later be removed from a unit if a tenant's income goes above 100 percent of AMI. The property must also be subject to a recorded deed restriction or regulatory agreement. The process of securing the exemption may take up to a year and half. In the following years, owners must recertify annually, filing a claim by February 15 each year.

Expanding the Use of the Welfare Exemption for Affordable Housing

The Welfare Exemption can have a significant impact on a project's financial feasibility. Property taxes comprise a large portion of a property's overall operating expenses. In California, all properties are subject to a standard ad valorem property tax rate of 1 percent of the assessed value of the property, plus any voter-approved bonds, special charges, and fees. Exemption from the ad valorem property tax[6] (the exemption does not apply to bonds, special charges, and fees) allows more projects to pencil and/or can allow owners to pass on those savings to tenants in the form of lower rents.[7]

For example, one interviewee, who is not using the Welfare Exemption, stated that property taxes comprise roughly 18 percent of their operating budget for one of their affordable housing developments. Another shared that by securing the tax exemption, one Bay Area development will save roughly a million dollars annually on operating expenses.

Expansion of the Welfare Exemption is not without tradeoffs. Property tax exemptions reduce the local tax base, leading to lower revenues for local governments and other impacted tax entities. In the case of the County of Santa Clara, the total assessed value for low-income housing receiving an exemption represented $6.8 billion, or just under 1 percent of the total secured assessment value in the county.[8, 9]

Furthermore, in some California markets, median incomes are so high that housing affordable to households at 80 percent of AMI is market-rate. Thus, there are concerns that the exemption might not always lead to rents being set below market levels, increasing housing affordability. In these cases, developers could potentially benefit from the exemption without passing the savings on to tenants in the form of lower rents. Even so, because rental appreciation is capped at the rate of annual increases to median income, deed-restricting these units as part of the Welfare Exemption could limit future price increases, ultimately leading to below market-rate housing.

Process for Amending the Welfare Exemption

As mentioned above, certain requirements for accessing the Welfare Exemption are enshrined in California's Constitution. Specifically, the requirement that the entity receiving the Welfare Exemption be a nonprofit organization—or partner with a nonprofit managing general partner—can only be changed through a constitutional amendment, which requires a two-thirds vote of the legislature to place such a measure before voters, or a majority vote for a citizen-enacted measure.

Expanding the Welfare Exemption to a new class of projects—for example, those serving middle-income households—would require a change in state legislation, which would likely be challenging for a variety of political and fiscal reasons. State legislation must first be vetted and passed through various legislative committees. Generally speaking, the legislature's budget committees are typically motivated to preserve as much funding as possible for the State. Even if they were to support expanding the exemption, the Appropriations Committees or the Governor could still reject it. That said, legislators continue to propose ideas to expand the exemption's eligibility, such as Senate Bill 336 (Wiener), which would expand the exemption to projects that would allow partial exemptions for residential rental properties that serve both low- and moderate-income households.

How the Welfare Exemption is Being Used to Create More Affordable Housing in California

Some California developers are using the Welfare Exemption without LIHTC equity to construct new multifamily housing, though it is more common to use it for the preservation of older market-rate housing that is naturally renting at rates affordable to low-income households. Entities such as the California Municipal Financing Authority (CMFA), Bay Area Housing Finance Authority (BAHFA), and Housing Authority of the City of Los Angeles (HACLA) now have programs to provide developers with a minimal amount of legally required government financing or subsidy for the sole purpose of accessing the Welfare Exemption to create or preserve affordable housing.

California Municipal Finance Authority: Charitable Housing Program

The CMFA Charitable Housing Program supports developers looking to develop affordable housing through the Welfare Exemption by providing a $10,000 grant and a 30-year deed restriction to applicants that meet programmatic requirements. As of August 2024, the Charitable Housing Program had supported 17 projects, seven of which were new construction, totaling 1,800 rent-restricted units.

Under CMFA's guidelines, projects may be acquisitions or new construction. In the case of acquisition projects, developers must demonstrate that they would not be able to operate the property without the tax exemption.

The enabling legislation is unclear as to whether a valid purpose of the Welfare Exemption is stabilizing rent appreciation if the rents themselves could otherwise approximate market-rate rents. Therefore, CMFA has been cautious in expanding the number of exemptions due to concerns over whether these projects are providing sufficient public benefit, particularly in locations where affordable rents at 80 percent of AMI may be at or close to market rates. CMFA requires developers to submit a proposal demonstrating that the project will lead to public benefits, such as rent reductions and/or a plan for rehab that keeps the units affordable to low-income households.

CMFA also has several provisions in place to ensure that properties are likely to be well maintained and continue to serve the target population. First, they vet the developer and property management, and only allow private developers to work with a select number of approved nonprofits. CMFA has also added a provision regarding transferability; they do not allow property transfers during the first five years, and CMFA must approve any transfer during the 30 years of the regulatory agreement. If the property is transferred, it must be to a qualified affordable housing developer with a track record of affordable housing development.

Roughly 60 percent of the properties that have received the Welfare Exemption through the Charitable Housing Program are acquisitions, while 40 percent are new construction. One interviewee emphasized that CMFA strives to set a high bar for developers to demonstrate that acquisition projects do not pencil without the Welfare Exemption. CMFA also wants to ensure that it is relatively easy to approve new construction projects as long as they follow both Board of Equalization requirements and CMFA programmatic guidelines.

Bay Area Housing Finance Authority: Welfare Tax Exemption Preservation Program

Created in 2019, BAHFA's Welfare Tax Exemption Preservation Program (WTEPP) seeks to help mission-driven housing developers achieve preservation and protection goals. The WTEPP provides a $5,000 grant and a 55-year deed restriction on a property that limits occupancy of designated units to households at or below 80 percent of AMI. Applicants must meet the Board of Equalization's ownership requirements and demonstrate a track record of successfully developing, owning, and operating similar affordable projects.

The WTEPP includes several elements that maximize public benefit and prevent displacement. First, BAHFA requires that applicants demonstrate through a market study that the rents are restricted at a 10 percent discount to market. Second, annual rent increases must be limited to the lesser of 1) any local rent stabilization ordinance, 2) the annual increase in AMI, or 3) 4 percent. However, if a project would risk default by limiting rent increases—for example, in a high inflationary environment—BAHFA would work with owners to prevent default; the owner could appeal to BAHFA for an amendment to the Regulatory Agreement and BAHFA Board approval. Finally, if properties have a debt service coverage ratio of 1.30 or higher (meaning their net income is equal or greater to 1.3 times the amount of their debt), BAHFA requires developers to reduce rents for rent-burdened residents earning less than or equal to

80 percent of AMI to a maximum of 30 percent of their gross annual income.

BAHFA has supported seven projects to date, totaling 789 rent-restricted units. Two of these projects were acquired by nonprofit affordable housing developers and five were by for-profit, mission-driven developers with experience in mixed-income and/or affordable housing development.

Housing Authority of the City of Los Angeles: Innovative Partnerships Program

The Housing Authority of the City of Los Angeles (HACLA) has taken on a role similar to BAHFA's, serving as a partner to secure the Welfare Exemption as part of their Innovative Partnerships Program. They have entered into partnerships for two acquisition deals to date, totaling more than 950 units, over 60 percent of which are deed-restricted at either 60 percent or 80 percent of AMI. They have two more new construction Welfare Exemption deals in the pipeline, comprising over 1,150 units. In addition to providing a regulatory agreement and government financing in the form of a subordinate loan, HACLA has a nonprofit entity that can serve as the managing general partner on these deals, which allows HACLA to participate in major decisions and interactions with residents.

HACLA prioritizes flexibility to ensure that projects are underwritten to maximize affordability while remaining economically viable. Similar to CMFA, HACLA emphasizes vetting potential partners to ensure the development team has a strong track record of affordable housing experience, as well as a plan for active property management and physical investment over time. HACLA also attempts to negotiate purchase options or rights of refusal where possible. Overall, HACLA's goal is to function as a one-stop shop for affordable housing owners wishing to use the Welfare Exemption.

Other States Have Used Property Tax Exemptions to Increase Affordable Housing Supply

The use of property tax exemptions or abatements is common across the United States, and in many instances, is applied to entire projects within which only a portion of units are affordable to low-income households.[10, 11, 12]

For example, the state of Washington has a program known as the Multifamily Property Tax Exemption.[13] In this program, qualified nonprofit developers are allowed an ad valorem property tax exemption on newly constructed housing, provided that a certain percentage of that housing is provided at varying levels of affordability. The exemption is for a period of eight, 12, or 20 years, depending on the type of project.

A 2019 report by Washington's Joint Legislative Audit Review Committee found that between 2007 and 2019, the exemption was used in the creation of 34,885 units of new housing in Washington, with 21 percent of those units being designated as affordable.[14] Use of the exemption has accelerated in recent years, with nearly 8,000 units created through the program in 2021, 12 percent of which were affordable.[15]

New York City has also used property tax exemptions to catalyze housing development. From 1971 to 2022, the 421(a) tax exemption program provided developers with a range of exemption options for multifamily residential housing depending on the development type. Between 2010 and 2020, more than 117,000 units were built using the 421(a) program.[16]

In April 2024, New York Governor Kathy Hochul announced a new housing tax incentive, 485-x, a similar incentive program that would provide up to 40 years of exemptions on property taxes for select properties. The new program exempts the entire property, so long as 20 to 25 percent of the units are affordable to low-income households and the weighted average for all of the affordable housing units does not exceed 60 or 80 percent of AMI (depending on which affordability option the developer selects). Income-restricted units remain permanently affordable.

Similarly, Oregon is home to the Multi-Unit Property Tax Exemption (MUPTE), a State-enabled housing incentive program designed to encourage the development of residential properties in city centers and along transit corridors.

The MUPTE provides a property tax exemption on the value of residential construction for new multifamily properties with four or more units, for up to ten years.

To qualify, each property is required to provide a certain number of public benefits defined by the jurisdiction. These benefits include meeting affordability and density requirements (for example, building at least 175 percent of minimum density for the zone) and incorporating green building features (for example, obtaining LEED v4 or Earth Advantage certifications).

Many jurisdictions in Oregon have adopted local MUPTE programs, including Eugene, Bend, and Corvallis. In Eugene, for example, the MUPTE program has supported the development of about 1,500 units in the city center. Since 1990, no housing has been built in the downtown core without the MUPTE or some other property tax exemption.[17, 18]

Challenges

In our interviews with a range of developers, practitioners, and local government staff, interviewees have identified a number of challenges to the increased utilization of the program.

For developers seeking to use the Welfare Exemption to facilitate preservation projects, it can be challenging to determine tenant incomes in order to know whether project units qualify for the Welfare Exemption.

Before a developer can purchase a property, they must assess the relative costs and benefits, as well as anticipated value of the Welfare Exemption. This requires knowing tenant incomes to determine how many units might be eligible for the Welfare Exemption. Because income

information is not typically available to prospective buyers during the due diligence period, incomes must be inferred by review of rent rolls or conversations with the building's owner. This uncertainty regarding unit-level eligibility for the property tax exemption makes acquisitions particularly risky for housing developers, since the developer doesn't know if they will be able to rely on receiving a property tax exemption for the unit.

It can take significant time to collect the required tenant information.

In a typical affordable housing project, tenants are income-verified before they move in. In Welfare Exemption acquisitions, property owners must work to gain the trust of the building's existing tenants in order to obtain income information, which can take significant time and effort and may need to include concessions such as lower rents.

Interviewees explained that it can be difficult to convince an existing tenant to share sensitive income information, especially since there is no immediate threat and no immediate benefit to the tenant. Additionally, since the units have not been receiving LIHTC equity, it is often tenants' first experience with income verification. Staff must work to explain to each tenant the longer-term benefits of having their unit deed-restricted and why their income information is necessary for keeping their rents stable in the future.

For example, one preservation project by National CORE in the San Fernando Valley was only able to income-verify 62 percent of existing tenants within the first year of acquisition, and 75 percent within the second year. This reduces the number of units eligible for the Welfare Exemption and thus the total exemption amount, increasing operating costs.

The Welfare Exemption also can be removed from a unit if the existing tenant's income increases and surpasses moderate-income level thresholds.

Interviewees shared that this potential change further complicates preservation deals because the Welfare Exemption can be removed from a unit if a tenant's income goes above 100 percent of AMI. Households are typically recertified annually. In contrast, LIHTC units do not lose their property tax exemption unless residents' incomes go above 140 percent of AMI. This makes it challenging to know if a property can benefit from the Welfare Exemption in the long-term.

Government financing—a condition for receiving the Welfare Exemption—may come with additional requirements that offset Welfare Exemption benefits.

To access the Welfare Exemption, developers must demonstrate to the county assessor that the project has received government funding. However, government financing and subsidy sources may require deeper affordability or prevailing wages for new construction projects, which can offset some or all of the financial benefits accrued through the tax exemption and potentially make the project financially infeasible.

While some developers suggested that the government financing requirement created unnecessary administrative burden as it was not being used to fill a material capital gap, others noted that the requirement creates a safeguard against widespread usage of the exemp-

tion on projects that do not provide substantial public benefit.

Certain components of the Welfare Exemption make it difficult to use.

In addition to funding and eligibility verification constraints, interviewees described other challenges that make Welfare Exemption-dependent development less feasible. Interviewees consistently noted that the process to receive the Welfare Exemption can be long and costly. For example, one interviewee shared that, from start to finish, it can take over a year to receive the Welfare Exemption in some counties. Others shared that it could take one and a half to two years.

Private developers must also meet organizational structure requirements in order to access the Welfare Exemption. Because the Welfare Exemption is only available to nonprofit owners, private owners must either form nonprofit arms of their organization or find an existing nonprofit to partner with, usually in the form of a limited partnership, and then compensate them for their services.

Recommendations

Our research and interviews surfaced a number of opportunities to increase the impact of the Welfare Exemption. Our recommendations fall into five specific categories:

1. Consider procedural changes to process Welfare Exemption applications more efficiently.

Interviewees shared that the Board of Equalization approval process for the organization can be completed ahead of time. However, the county assessor's approval for property-level tax exemptions only comes later in the process, can be lengthy, and may vary significantly from county to county.

The legislature should consider providing clearer guidance to both applicants and county assessors to increase process efficiency and ensure more uniform experiences across the state. This could decrease processing time and uncertainty for developers, ensuring that if properties do meet the requirements, they'll receive the exemption in a timely manner.

Additionally, both the Board of Equalization and counties should consider having a designated Welfare Exemption liaison with whom developers can easily communicate and resolve issues.

Additionally, the legislature could consider adopting a "shot clock" that county assessor's offices would be required to meet in processing exemption applications. In this policy, if a county fails to process an exemption within the shot clock timeframe (e.g., six months), the exemption could be deemed complete unless a future review invalidates the approval.

2. Develop guardrails to ensure the Welfare Exemption is utilized to achieve public benefit goals.

The public agency providing government financing should ensure projects maximize public benefit by providing housing below current market rates and by preserving affordable housing in the long-term, particularly in high-cost markets. The guardrails included in BAHFA's Welfare Tax Exemption Preservation Program—restricting rents to a 10 percent discount to market and limiting rent increases—could be replicated across programs. In addition, they encourage developers to reduce rents for

rent-burdened residents, as long as the project has sufficient cash flow to allow it. Even though it may somewhat limit the number of participating projects, public agencies and state and regional agencies with programs like WTEPP could consider implementing similar measures to safeguard public benefit. In particular, they should ensure that regulatory agreements include explicit language that developers will honor existing rent stabilization ordinances.

It should be noted that the requirement that developers restrict rents to a 10 percent discount to market may impact the feasibility of projects, which could lead to fewer projects participating in these programs.

3. Expand the use of the Welfare Exemption to support multifamily infill projects with affordability requirements.

The legislature could consider expanding the Welfare Exemption to support the new construction of all multifamily infill housing developments that are eligible for streamlining under Senate Bill (SB) 423 (Wiener) and state density bonus law, and that meet the Welfare Exemption affordability requirements.

If a developer is using SB 423 or density bonus law to create new low-income housing, the legislature could consider clarifying that there is a presumption of Welfare Exemption eligibility for units affordable to households earning 80 percent or below of AMI. A for-profit could partner with a nonprofit, and whichever public entity is administering SB 423 and density bonus law—generally the City—could be expected to provide the public financing or subsidy with limited additional regulatory costs to access the Welfare Exemption.

Operating similarly to the 421-a tax exemption in New York, this policy change would mean that qualifying properties would automatically receive the Welfare Exemption for the affordable units, further removing barriers to affordable housing development. Decreasing the tax burden on these properties would align with the demonstrated state policy priority of increasing infill development in SB 423-qualifying localities.

Both of these policy changes would still require the developer to either be a nonprofit organization or partner with a nonprofit; changing this requirement would necessitate a constitutional amendment. In the long-term, state policymakers should consider amending the constitution to align with the state's affordability priorities as expressed in SB 423 and state density bonus law.

4. Expand regional government's role in providing nominal government financing and regulatory agreements.

Regional governmental entities, such as regional finance authorities, could expand the important role some are already playing by providing the small amounts of support needed for all projects to qualify, and serving as a regulatory body for monitoring compliance when local governments aren't otherwise monitoring the project and lack necessary capacity or expertise.

For example, regional agencies, such as the Bay Area Housing Finance Agency, and local agencies, such as the Housing Authority of the City of Los Angeles, provide financing for these types of deals. At the state level, the California Housing Finance Agency could also

scale its work in this area, potentially as a "fee-for-service" program.

These local and regional entities are often able to provide a more streamlined, expedited, and consistent exemption approval process across counties. It is essential, however, that these agencies maintain open lines of communication with local governments to ensure that projects align with housing goals and policy priorities.

SB 440 (2024, Dodd) furthers the role of regional governmental entities by enabling local governments to join together to establish regional housing finance agencies to address community affordable housing needs. While both regional agencies in the Bay Area and Los Angeles (BAHFA and the Los Angeles County Affordable Housing Solutions Agency, respectively) were formed through individual state bills, legislators were unsuccessful in passing SB 1105 in San Diego to establish a similar regional housing finance agency, the San Diego Regional Equitable and Environmentally Friendly Affordable Housing Agency. SB 440 should make it easier for local governments to form regional housing finance agencies without new legislation.

5. Provide flexibility on the income levels served by the program and streamline verification process.

The legislature should consider proposals, such as Senate Bill 336 (Wiener), to increase the applicability of the exemption above 80 percent of AMI in certain circumstances. Increased eligibility for the exemption would build on recent changes implemented by Assembly Bill 84 (2023, Ward) in which the legislature affirmed that units in LIHTC projects do not lose their tax exemption if tenants increase their income above the 80 percent AMI threshold. As long as tenant AMIs remain at or below 140 percent of AMI, the unit maintains the property tax exemption. This provision ensures that tenants are not forced out of their housing when they see important gains in income. Similar flexibility should be considered for non-LIHTC deed-restricted units eligible for the property tax exemption.

For income verification, self-certification could allow for a much easier process and higher level of tenant certification. This change would be particularly useful for the acquisition and preservation of existing naturally occurring affordable housing, given that tenants are sometimes hesitant to share personal information with new owners. This results in owners being unable to exempt the number of units needed to make projects financially feasible while still keeping rents at affordable levels. Certifications could also be required every three years rather than on an annual basis.

Self-certification has been used for other housing programs. For example, beneficiaries of the federal Community Development Block Grant program can self-certify their incomes. U.S. Department of Housing and Urban Development guidelines recommend that program administrators then request source documentation for 20 percent of the certifications.

It is important to note that a self-certification approach does introduce an increased risk of fraud or misrepresentation. California could consider assessing the effectiveness of these strategies to determine whether such policy changes would work

here. If not open to self-certification, Cities and Counties should consider accepting third-party certifications. For example, if a tenant had already qualified for CalFresh or another entitlement program, their participation in that program should be considered sufficient documentation of their income.

6. Pursue opportunities to incentivize catalytic capital to increase the number of Welfare Exemption projects.

Developers who use the Welfare Exemption need both debt and equity. While developers can leverage the rents from the property in the form of a bank loan, the balance of the project costs —either for acquisition or new construction—must come from equity funds. Traditionally, equity funds require high returns, making it challenging to achieve below-market affordability.[19] Developers may seek out other affordable housing financing options—such as private capital that has more favorable terms than those set by the market—to build or preserve deed-restricted housing at greater scale from equity investors who are willing to take below-market returns. Referred to sometimes as "concessionary" or "catalytic" capital, these funds tend to be mission-oriented, such as a foundation's program-related investments.

For example, developers at National CORE shared that they have been able to secure capital sources willing to take slightly lower return rates, knowing that their funding was supporting the preservation of affordable housing in the San Fernando Valley.

Concessionary capital is generally structured as equity or mezzanine debt and can comprise anywhere from 10 to 30 percent of the overall project capital stack. The discount can vary across projects, but in some cases it can be enough to successfully use the Welfare Exemption without LIHTC or other major sources of government funding. State administrators should look into opportunities to incentivize catalytic capital—for example, by investing State funds into those funds or creating tax incentives for businesses to.

Conclusion

By utilizing the Welfare Exemption in combination with other tools, developers are finding new and innovative ways to increase affordable housing production and preservation. But this innovation is stunted by the Welfare Exemption's narrow application and complex regulatory requirements. By revisiting these requirements, policymakers can facilitate greater use of this tool and catalyze greater affordable housing production, while still safeguarding public benefit.

Endnotes

1. California Housing Partnership. (2024). Over 220,000 Unsubsidized Affordable Homes at Risk. Retrieved from: **https://chpc.net/wp-content/uploads/2024/04/Unsubsidized-At-Risk-Report_April-2024.pdf**

2. Adapted from a Board of Equalization publication: **https://www.boe.ca.gov/proptaxes/pdf/pub149.pdf**

3. Qualifying purposes for the Welfare Exemption are defined by Revenue Taxation Code section 214 as: "religious, hospital, scientific, or charitable purposes."

4. Government financing can take the form of (1) tax-exempt mortgage revenue bonds; (2) general obligation bonds; (3) qualified 501(c)(3) bonds; (4) local, state, or federal loans; (5) local, state, or federal grants; (6) any loan insured, held, or guaranteed by the federal government; or (7) project-based federal funding under Section 8 of the Housing Act of 1937. However, it does not include properties that solely receive federal rental assistance through tenant rent-subsidy Section 8 vouchers. For more information, see: **https://www.boe.ca.gov/proptaxes/pdf/rules/Rule140.pdf**

5. Counties generally allow a three-month lookback from the date the income verification is filed when considering the refund of overpaid taxes and may take up to a year to process the verification. Processing times for the verification and refund of overpaid taxes vary widely depending on the County, and extended wait times for refunding overpaid taxes add a cost burden to the development of more affordable housing.

6. Ad valorem property taxes are taxes derived from an assessed value.

7. Garcia, D. (2023). Making It Pencil: The Math Behind Housing Development – 2023 Update. Terner Center for Housing Innovation, University of California, Berkeley. Retrieved from: **https://ternercenter.berkeley.edu/research-and-policy/making-it-pencil-2023/**

8. Interview with representatives from the County of Santa Clara Assessor's Office.

9. The assessed value exempted does not fully capture the loss of local tax revenue. Deed restrictions— legal agreements that restrict who may occupy a housing unit, only allowing households earning up to a certain amount to rent the unit—also decrease the assessed value on which property taxes themselves are collected. Absent the deed restrictions tied to the Welfare Exemption, the property's assessed value itself may be much higher.

10. Tax exemptions are also sometimes structured as tax abatements. Abatements are temporary reductions in property taxes, whereas exemptions work by reducing the taxable value of a property.

11. A SPUR research report, *Housing the Middle*, identifies 10 property tax exemptions or abatements specifically to catalyze the development of middle-income housing. Diverse local and state governments—including Oregon, New York, and Washington—utilize these property tax exemptions and abatements to make development more financially feasible without public subsidy.

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15. Washington State Department of Commerce. "What is MFTE?" Fact Sheet. Retrieved from: **https://deptofcommerce.box.com/shared/static/x98q2nvh2r070047i1unuhojai6riatw.pdf**

16. Raetz, H. and Matthew Murphy, M. (2022). The Role of 421-a during a Decade of Market Rate and Affordable Housing Development. Furman Center for Real Estate and Urban Policy, New York University. Retrieved from: **https://furmancenter.org/research/publication/the-role-of-421-a-during-a-decade-of-market-rate-and-affordable-housing-development**

17. City of Eugene, Oregon. Frequently Asked Questions • How Effective Has MUPTE Been? Accessed Aug 2, 2024 from: **www.eugene-or.gov/Faq.aspx?QID=844**

18. Given that the MUPTE is a State-enabled program but adopted at the local level (in different years and with different local restrictions), there is little state-level data available on the total number of units produced.

19. Garcia, D. (2023). Making It Pencil: The Math Behind Housing Development. Terner Center for Housing Innovation, UC Berkeley. Retrieved from: **https://ternercenter.berkeley.edu/research-and-policy/making-it-pencil-2023/**

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