# California's Inefficient Use of LIHTC Funds is a Policy Choice

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**Executive Summary:**

Construction of multifamily projects funded by the Low-Income Housing Tax Credit in Los Angeles is incredibly expensive. CTCAC's scoring criteria for 9% LIHTC do not include spending efficiency, and in fact contribute to the high—much higher than market rate—cost of construction for LIHTC projects in Los Angeles. This is driven by the additional requirements placed on LIHTC development by other public programs used as part of a project's financing stack. CTCAC's current criteria exacerbate this dynamic, adding to development costs and reducing the efficiency—and thus effectiveness—of LIHTC and other housing subsidy programs. To address these issues and align incentives toward producing low-income housing at high volume and low cost, California should change its criteria for ranking 9% LIHTC projects to consider spending efficiency across pubic subsidy sources and reward projects that bring large proportions of unsubsidized financing to the deal.

**Introduction: CTCAC Decides Which Projects Receive Competitive LIHTC Funding**

In any public program to subsidize development, there is a tension between producing more of the development type a program subsidizes and the ability of policymakers to use the incentive of the subsidy to extract other public benefits from development. This dynamic, referred to in the popular press as 'everything bagel liberalism' (Klein, 2023), adds cost to public works projects of all kinds, but multifamily construction funded by the Low-Income Housing Tax Credit (LIHTC) Program is a good example.

The program provides subsidies, in the form of tax credits, for the construction and rehabilitation of low-income housing (Keightley, 2025). Each state receives an allocation of LIHTC funding based on its population and allocates that funding to different projects based on a scoring system (Keightley, 2025). Although the funding is federal, the program is administered by the states, with each setting their own criteria for how to allocate scarce public dollars among competing projects. In California, the California Tax Credit Allocation Committee administers a two-tiered scoring system for LIHTC-eligible projects seeking competitive 9% credits: each project receives a base score; when multiple projects receive the same score, a separate set of tiebreaker criteria are engaged (4 CCR Sec. 10325(c)). Because of the scarcity of 9% credits relative to the demand for them, all projects recommended to receive allocations of 9% credits in CTCAC's 2026 round 1 scored the maximum 109/109 on the base scoring system (CTCAC, 2026). That makes the requirements to receive the maximum score in each subcategory effectively a checklist for projects to move to the decisive tiebreaker stage, which is entirely CTCAC's creation (4 CCR § 10325(c)(9)).

The CTCAC exercises a great deal of control over this process because it sets the rules. While the criteria for the base scoring system are largely guided by provisions of federal law (26 USC Sec. 42(m)), the associated point values used in the scoring system are set by the CTCAC, giving it effective control over how those criteria are prioritized (4 CCR Sec. 10325). Given CTCAC's level of regulatory discretion over a primary lever to address one of California's top policy problems—its lack of affordable housing—it's appropriate to examine whether that discretion is being used effectively to deliver maximum public benefit to the people. The remainder of this brief argues that it is not.

**Problem: Efficient Use of Funds is Not Prioritized in CTCAC's Allocation of 9% Credits.**

Competing Goals

CTCAC's scoring methodology for 9% projects does some things right. Out of a maximum base score of 109 points, 52—by far the largest category—are allocated based on the depth of the project's affordability commitment, reflecting a policy commitment toward delivering affordable units (4 CCR Sec. 10325(c)(6)).

But other components of the scoring system increase project costs and hinder the program's core mission of delivering low-income housing. For example, California caps the annual federal credit allocation to any one project at $2.8m (4 CCR Sec 10325(f)(9)(C)). This spreads program funds across more projects, but effectively ensures that they will be relatively small, preventing significant economies of scale.

The Soft Money Trap

Within the scoring system itself, other criteria stack up to add to the unit cost of development. For example, projects are allocated points for 'service amenities'—services provided to residents free of charge like childcare, wellness programming, and social service coordination (4 CCR Sec. 10325(c)). Providing these services to residents of low-income housing is a laudable goal, but doing so based on where they happen to live seems like a strange way to allocate those public benefits, increasing development costs and required public subsidies along the way.

In a different way, the tiebreaker's prioritization of projects that leverage a large proportion of soft money in their financing stack also increases project costs. Just as LIHTC development adds numerous conditions in order to receive funding, other pools of soft money come with additional requirements, with each additional funding source associated with roughly a 2% increase in total development costs in a statewide study of 9% LIHTC projects (Reid, 2020). By prioritizing projects that utilize other sources of subsidized capital, CTCAC is able to stretch its dollars further in a narrow sense—it's able to spread limited funds across more projects. But by pushing projects into convoluted financing stacks in order to be competitive for 9% credits, CTCAC selects for relatively high-cost projects, decreasing the efficiency of not only LIHTC spending but the other soft money pools leveraged in as well.

The most notable example of these additional conditions that come with any of several pools of soft money is the requirement to pay prevailing wages, which LIHTC credits alone do not trigger under federal law. Federal soft money sources like HUD's HOME Investment Partnership, Community Development Block Grant, and Section 8 project-based voucher

programs all come with the requirement to pay Davis-Bacon wages for labor on the project in most cases and submit to compliance monitoring (HUD, n.d). Similarly, state law requires projects that receive public funds in the form of grants, below-market land conveyances, fee waivers, or forgivable loans to pay prevailing wages (Cal. Lab. Code Sec. 1720).

As a result of these and other requirements that market rate developments do not face, the cost of developing LIHTC housing in California is extraordinarily high. A RAND Corporation analysis found that the average total development costs for multifamily LIHTC projects were $833[1]/net rentable square foot—65% more than market rate multifamily development (Ward & Schlake, 2025).

Policy Momentum

These dramatic costs not only reduce the ability of subsidy programs to provide public benefits but also can decrease political support for affordable housing programs. In the recent race for LA Mayor, Nithya Raman made inefficiency in affordable housing and homelessness response spending under Mayor Bass a top issue in her campaign and cruised to a 10-point victory (Liu, 2026; Associated Press, 2026). On the same ballot, California voters approved an $11.25 billion bond measure to fund affordable housing construction in the state (CalMatters, 2026). Those funds, largely routed through the

[1] All costs in 2025$. Ward & Schlake (2025) report results in 2019$. Inflated to 2025 dollars by CPI-U (Federal Reserve Bank of St. Louis, n.d.).

Multifamily Housing Program (Eshima & Low, 2026), will serve as a large new pool of soft money for projects applying to CTCAC for 9% credits.

The tiebreaker formula outlined in the CTCAC's regulations follows a tiered structure. First, for projects in the Cities of Los Angeles and San Francisco, a letter of support from the city housing agency is decisive. For all other projects and within those cities, an application is skipped if the goal for its housing type has already been met in the round. Finally, a quantitative score is assessed that rewards a higher share of soft money in the financing stack, a low requested eligible basis relative to total development cost, and location in a high-opportunity area (4 CCR Sec. 10325(c)(9)). Increased availability of soft money for 9% projects under Proposition 1 will increase the dominance of the term that prioritizes having a high share of soft money in the financing stack in CTCAC's formula.

**The Solution: Prioritize Efficiency in the Distribution of LIHTC Funds**

To decrease the unit cost of projects funded by 9% LIHTC credits, the solution is relatively straightforward—require that CTCAC incorporate efficiency criteria into its formula for ranking 9% projects. Developers of low-income housing have demonstrated their ability to design projects that meet CTCAC's priorities—every one of its recommended projects in 2026 round 1 scored the maximum in every base score category (CTCAC, 2026). If the requirements are changed to prioritize a lower unit cost of development, developers will adapt in kind.

Specifically, a targeted fix for this issue would change CTCAC's project assessment formula in two ways:

1. **Make the unit cost of development a salient criterion.** To increase efficiency in LIHTC spending, policymakers should change state law to require CTCAC to consider it in the formula for ranking 9% projects. This criterion would preferably operate in both the base score—setting a reasonable threshold for project efficiency—and in the tiebreaker to preference projects that produce units at a relatively low unit cost. These scoring criteria would need to be normalized by geography to account for within-state variation in development costs and affordability to avoid creating a preference for shallowly affordable units.
2. **Change the formula to favor projects that leverage private money.** Current regulations give preference to projects that leverage a large amount of soft money—typically other public subsidies—as a share of their total development costs. This dynamic arguably makes efficient use of LIHTC dollars but adds design and administrative complexity and puts other pots of public money to inefficient use. This change would support instead projects that bring a relatively large share of private funding—owner equity but also philanthropic and impact investing money.

These changes would facilitate a process that—instead of throwing good money after bad—incentivizes efficiency in the design of affordable housing projects and brings additional private money to the table to make public dollars stretch further, not just within the LIHTC program but other sources of government subsidy for affordable housing as well.

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