

ASSEMBLY BILL 1905 (CHIU)

PERMANENT FUNDING TO ADDRESS HOMELESSNESS

SUMMARY

This bill would create an ongoing, permanent funding source to support programs and services to address the state's homelessness crisis.

THE PROBLEM

On any given night in the state, 150,000 Californians are homeless, and the numbers are increasing. California has the highest rate of unsheltered homeless individuals at over 108,000, which is 70% of the state's total homeless population. Even as we successfully get people housed, more people are falling into homelessness. In Oakland, for each person the city houses, two more people become homeless. In San Francisco, for each person the city houses, three more people become homeless. In Los Angeles County, for every 133 people housed, 150 are falling into homelessness.

In the past few years, the state has provided one-time funding to local governments to respond to this crisis, but an ongoing, sustainable funding source has yet to be identified.

In stark contrast, the largest investment the state makes in housing is through the mortgage interest deduction (MID), a deduction that disproportionately benefits people with higher incomes and higher home values. In 2012, 77 percent of the benefits from the federal mortgage interest deduction went to homeowners with incomes above \$100,000. According to the Franchise Tax Board (FTB), approximately 4.3 million Californians claim the deduction resulting in over \$4.2 billion in revenue loss to the state each year.

After the passage of the 2017 federal tax law, taxpayers can only deduct interest paid on the first \$750,000 on their federal tax returns, but California law still allows taxpayers to deduct interest paid on the first \$1 million of a home loan on their state tax returns. Lack of state conformity costs several hundred million dollars a year.

In addition to the MID deduction that California taxpayers can make on their primary homes, they can also deduct interest paid on a second vacation home they own. The estimated impact of the vacation home MID on the General Fund averaged \$250 million a year. Only 175,000 California taxpayers claim a MID on a second vacation home.

According to the FTB's *California Income Tax Expenditure Report for 2016*, although the mortgage interest deduction was intended to increase homeownership,

most economists believe there is little evidence that it does. According to the report:

"...this deduction does not actually make housing more affordable for homeowners ...Additionally, if the goal is to encourage home ownership, there is no reason to extend the benefit to second homes."

California spends significant resources on the mortgage interest deduction which subsidizes existing homeowners without creating new ones. To respond to the homelessness crisis and double-digit homelessness increases facing communities across California, we need an ongoing funding source to move people into housing and prevent people from falling into homelessness.

THE SOLUTION

AB 1905 would create a permanent source of funding for homelessness by eliminating the mortgage interest deduction on vacation homes and conforming to federal law the amount of interest a taxpayer can deduct on a primary home.

Combined these changes would generate close to half a billion dollars annually to combat our state's homelessness crisis. This funding would be used to fund immediate and long-term solutions to homelessness, informed by best-practice frameworks focused on moving homeless individuals and families into permanent housing and supporting the efforts of those individuals and families to maintain their housing.

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