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**SENATE COMMITTEE ON TRANSPORTATION AND HOUSING**

**Senator Jim Beall, Chair**

**2017 - 2018 Regular**

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**Bill No:** SB 3 **Hearing Date:** 2/28/2017  
**Author:** Beall  
**Version:** 12/5/2016  
**Urgency:** Yes **Fiscal:** Yes  
**Consultant:** Randy Chinn

**SUBJECT:** Affordable Housing Bond Act of 2018.

**DIGEST:** This bill authorizes the issuance of \$3 billion in General Obligation bonds for affordable housing, subject to voter approval.

**ANALYSIS:**

Existing law establishes a number of housing assistance programs for affordable housing.

This bill:

Authorizes the issuance of \$3 billion in General Obligation Bonds, subject to approval by voters in the November 6, 2018 general election, for the following affordable housing purposes:

- a) Multi-family Rental Housing —\$1.5 billion to the existing Multifamily Housing Program to assist in the construction, rehabilitation, and preservation of permanent and transitional rental housing for persons with incomes of up to 60% of the area median income
- b) Transit Oriented Development Rental Housing—\$0.2 billion to the existing Transit-Oriented Development Implementation Program and \$0.3 billion the Infill Incentive Grant program of 2007.
- c) Special Populations —\$0.3 billion to the existing Joe Serna, Jr. Farmworker Housing Grant Fund and \$0.3 billion to the existing Local Housing Trust Fund Matching Grant Program.
- d) Homeownership —\$0.3 billion to the existing CalHome Program and \$0.1 billion the existing Building Equity and Growth in Neighborhoods Program.

**COMMENTS:**

- 1) *Author's Statement.* California is facing a housing crisis. California is home to 21 of the 30 most expensive rental housing markets in the country, which has had a disproportionate impact on the middle class and the working poor. A person earning minimum wage must work three jobs on average to pay the rent for a two-bedroom unit. Additionally, units affordable to low-income earners, if available, are often in serious states of disrepair. California also faces a housing shortage: 2.2 million extremely low-income and very low-income renter households are competing for only 664,000 affordable rental homes. Further, California has seen a reduction \$1.5 billion of annual state investment dedicated to housing in recent years.

As demonstrated through Prop 46 and Prop 1C and the 183,000 units they created, this bond will have a real and lasting impact on the housing shortage and match recent local efforts to fund housing through the passage of local housing bonds by providing \$3 billion through a statewide housing general obligation bond to fund existing and successful affordable housing programs in California. The programs in this bond specifically fund the construction, rehabilitation, and preservation of housing for those at risk of or currently experiencing homelessness and low-income earners, as well as create more homeownership opportunities for low- and moderate-income earners. Investing in affordable housing will save Californians money. For every \$.70 of state investment, California can leverage \$3 in federal tax credits and bonds. Taken together with an additional \$11 billion in leveraged federal funding, this bond bill will result in: 147,000 jobs, more than \$9 billion in labor income, and \$24.5 billion in economic activity, and \$1.1 billion in additional local and state taxes & fee revenue.

- 2) *Housing a Problem.* California's housing crisis is illustrated in many ways. In March 2015 the Legislative Analyst's Office (LAO) reported that an average California home costs \$440,000, almost two-and-a-half times the national average. California's average monthly rent is 50% higher than the rest of the country. It is therefore unfortunately not surprising that the majority of California renters pay more than 30% of their income towards rent, and more than 1.5 million households pay more than half of their incomes towards rent.<sup>1</sup> A recent analysis by the McKinsey Global Institute estimates that California's housing shortage costs California's economy hundreds of billions of dollars in economic activity every year, with high housing costs crowding out other

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<sup>1</sup> California's Housing Future: Challenges and Opportunities (Public Draft) – California Department of Housing and Community Development, January 2017.

consumption, lost opportunities in the construction industry, and increasing homelessness.<sup>2</sup>

California has seen a significant reduction of funding at the state level in recent years. Proposition 46 of 2002 provided \$2.1 billion for a variety of affordable housing programs, and Proposition 1C of 2006 provided an additional \$2.85 billion. Both Proposition 46 and Proposition 1C provided roughly 4-5 years of funding, and the state's Department of Housing and Community Development (HCD) has awarded just about all of these funds. California also recently lost tax increment as a funding stream for affordable housing with the dissolution of redevelopment agencies. With the loss of redevelopment and expenditure of the last voter-approved housing bonds, \$1.5 billion of annual state investment dedicated to housing has been eliminated.

A recent report by the California Department of Housing and Community Development highlighted the depths of the resulting housing shortage, showing that statewide for very low-, and extremely low- households, California is short about 1.5 million rental units.<sup>3</sup> That same report showed that for low-, moderate-, and above moderate-income levels, there was a sufficient number of rental housing, at least on a statewide average basis, indicating that the focus should be on the poorest households. In a March 2016 informational hearing, this committee heard that California's 2.2 million extremely low-income and very low-income renter households are competing for only 664,000 affordable rental units.

- 3) *Program Descriptions.* This bill proposes new funding for several existing programs, which are described below along with the funding proposed in this bill. These programs all received funding under Prop 1C.
  - a) Multifamily Housing Program (\$1.5 billion) — The Multifamily Housing Program assists the new construction, rehabilitation, and preservation of permanent and transitional rental housing for lower income households through loans to local governments and non- and for-profit developers. Funds are for incomes up to 60% of area median income.
  - b) Transit-Oriented Development Implementation Program (\$0.2 billion) — under the program, low-interest loans are available as gap financing for rental housing developments that include affordable units, and as mortgage

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<sup>2</sup> A Tool Kit to Close California's Housing Gap: 3.5 Million Homes by 2025 – McKinsey Global Institute, October 2016.

<sup>3</sup> California's Housing Future: Challenges and Opportunities (Public Draft) – op cit. Extremely low income households earn less than 30% of the area median income (AMI); very low income households earn between 30%-50% of AMI.

assistance for homeownership developments. Grants to cities, counties, and transit agencies are for the provision of the infrastructure necessary for the development of higher density uses within close proximity to a transit station and loans for the planning and development of affordable housing within one-quarter mile of a transit station.

- c) Infill Infrastructure Financing Grants (\$0.3 billion) — this program assists in the new construction and rehabilitation of infrastructure that supports higher density affordable and mixed-income housing in locations designated as infill, such as water and sewer extensions.
  - d) Joe Serna, Jr. Farmworker Housing Grant Program (\$0.3 billion) — this program finances the new construction, rehabilitation, and acquisition of owner-occupied and rental units for agricultural workers, with a priority for lower income households.
  - e) Local Housing Trust Matching Grant Program (\$0.3 billion) — this provides matching grants to local governments and non-profits that raise money for affordable housing.
  - f) CalHome (\$0.3 billion) — this program provides grants to local public agencies and nonprofit developers to assist individual households through deferred-payment loans. The funds would provide direct, forgivable loans to assist development projects involving multiple ownership units, including single-family subdivisions. This money would also be available to self-help mortgage assistance programs and manufactured homes.
  - g) Building Equity and Growth in Neighborhoods program (\$0.1 billion) — this program provides down payment assistance for first-time low- and moderate-income homebuyers where project affordability has been improved through regulatory incentives.
- 4) *Results from Prior Affordable Housing Bonds.* In November 2006, California voters approved Proposition 1C, the \$2.85 billion Housing and Emergency Shelter Trust Fund Act of 2006, by a 58%/42% margin. Proposition 1C provided \$1.5 billion for affordable housing, \$0.85 billion for infill incentives, \$0.2 billion for housing related parks in urban, suburban and rural areas, and \$0.3 billion for the provision of infrastructure necessary for transit-oriented development. According to HCD, as of 2016 Proposition 1C resulted in 92,000 housing units and 3,000 shelter spaces, with \$250 million remaining to be spent. In 2002 the public approved Proposition 46, which provided \$2.1 billion for

affordable housing programs, resulting in 91,000 housing units. This bill is expected to provide a proportionate number of housing units.

- 5) *Making Choices*. As with all General Obligation bonds, the bond repayment comes from the general fund. Therefore, approving this bond means there will be less general fund monies available for other state purposes.
- 6) *Double Referral*. This bill has been doubled-referred to the Governance and Finance Committee.

**RELATED LEGISLATION:**

**SB 2 (Atkins)** — provides a sustainable funding source for affordable housing programs. *This bill is pending hearing in the Senate Transportation and Housing Committee.*

**SB 35 (Weiner)** — creates a streamlined, ministerial approval process for infill developments in localities that have failed to meet their regional housing needs assessment numbers. *This bill is pending hearing in the Senate Transportation and Housing Committee.*

**SB 879 (Beall)** — authorized the issuance of \$3 billion in General Obligation bonds for affordable housing. *This bill failed on the Assembly floor.*

**FISCAL EFFECT:** Appropriation: No    Fiscal Com.: Yes    Local: No

**POSITIONS:** (Communicated to the committee before noon on Wednesday, February 22, 2017.)

**SUPPORT:**

California Building Industry Association  
California Coalition for Rural Housing  
California Commission on Aging  
California Rural Legal Assistance Foundation  
California Housing Partnership Corporation  
California Housing Consortium  
City of Belmont  
City of Concord  
City of Daly City  
City of Fort Bragg  
City of Fremont  
City of Goleta  
City of Hayward

City of Indio  
City of Lakeport  
City of Los Angeles  
City of Mountain View  
City of Napa  
City of Petaluma  
City of Sacramento  
City of San Jose  
City of San Mateo  
City of San Rafael  
City of Santa Monica  
City of Santa Rosa  
City of Sunnyvale  
City of Thousand Oaks  
City of Union City  
City of Walnut Creek  
City of West Hollywood  
Community Housing Partnership  
East Bay Local Asian Development Corporation  
Housing California  
The John Stewart Company  
League of California Cities  
Mercy Housing  
Metropolitan Transportation Commission  
Non-Profit Housing Association of Northern California  
San Luis Obispo Housing Trust Fund  
Southern California Association of Nonprofit Housing  
Town of Danville  
TransForm  
Western Center on Law and Poverty

**OPPOSITION:**

None received.

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