



**Testimony of Douglas Shoemaker  
President, Mercy Housing California**

Mercy Housing applauds Congresswoman Lofgren and the California Senate Housing Committee for taking the initiative to hold this hearing to consider the financial and regulatory challenges to producing more affordable housing in California. In the context of declining public funding, escalating housing costs and stagnating incomes, the affordable housing problem in California has worsened considerably during this period of economic recovery from the foreclosure crisis.

As such, this hearing comes at a critical time--California's chronic affordable housing shortage is worsening virtually every month. Our supply problem is historical and well documented. We can now boast of having 8 of the top 10 least affordable housing markets in the country. There are some obvious drivers of this problem. The median income has dropped by 8% while the federal and state investment to development of affordable housing has dropped by 79%. The results are equally clear as median rents in California have increased by over 20%.<sup>1</sup>

We applaud the legislature and voters for their leadership on both Proposition 41 and the Cap and Trade funding. Both of these programs are making an impact in the creation of new affordable housing. However, these programs are not adequate to fill the hole left by the loss of HOME funds, redevelopment funding, and General Obligation Bond funding from Proposition 46.

There are many self-inflicted causes of our affordable housing crisis:

- 1) The much-discussed budget stalemate at the Federal level which has led to a massive decrease in appropriations for housing development;
- 2) The State's unwillingness to address the major structural limitations of our tax code which has created a chronic, but manufactured fiscal crisis in local and state budgets for decades;
- 3) The Governor's apparent opposition to State funding to replace over \$1 billion in lost redevelopment funds for affordable housing; and
- 4) The State's failure to address the incredibly apparent abuse of CEQA by opponents of housing development.

As a consequence of our inability to make progress on such fundamental issues, the most economically successful state in the wealthiest nation in the world is also the shame of the nation in terms of homelessness—with a point-in-count of 113,952 homeless people. We have 20% of nation's homeless population, though only 10% of total US population. In addition, we have the highest rate

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<sup>1</sup> "How California's Housing Market is Failing to Meet the Needs of Low Income People," California Housing Partnership Corporation, 2014.

of chronically homeless individuals and families in the country as well as child homelessness.<sup>2</sup> Mercy Housing sees the desperation every day. Last year, we opened a 75 apartment community in San Francisco and received over 5500 applications and nearly 5,000 applications for a 100 unit senior housing community in the Tenderloin.

### **Background on Mercy Housing, Inc.**

Mercy Housing is a national not-for-profit organization founded in 1981 whose mission is to create stable, vibrant and healthy communities by developing, financing and operating affordable, program-enriched housing for families, seniors and people with special needs who lack the economic resources to access quality, safe housing opportunities. Through affordable housing and supportive programs we help people improve their economic status, transform neighborhoods and stabilize lives.

Today, Mercy Housing is active in 43 states through development, lending and property management operations. We have developed or funded over 40,500 affordable homes, touching the lives of more than 137,800 people on any given day. Mercy Housing serves families, seniors, and people with special needs at or below 50 percent of the area median income, with the current median annual income for resident families at approximately \$18,720. We have a particular focus in California, where we have developed over 12,000 affordable homes in 36 counties state-wide over the last twenty years.

Beyond providing safe, quality housing, we offer resident programs at our rental properties to address residents' needs in education, health and wellness, economic development, and community development.

## **II. What can be done at the Federal level to address the affordable housing crisis in California?**

- 1) **Restore Federal funding for housing production.** Federal funding to support new affordable housing opportunities has practically disappeared outside of the very successful Low Income Housing Tax Credit program. As an example, the National Low Income Housing Coalition reports that funding for the HOME Investment Partnerships Program has been cut in half since FY10, from \$1.8 billion to \$900 billion in FY15. To make matters worse, the Senate passed a budget bill reducing HOME to only \$66 million or 7% of its FY 15 appropriation. The recently passed budget compromise would enable Congress to restore funding to HOME and address the many other budget shortfalls in the FY 16 HUD budget.
  
- 2) **Adopt California's 1115 Medicaid Waiver Request.** California has applied for an 1115 Medicaid Waiver that has a very modest request to allow the State to spend up to \$300

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<sup>2</sup> Annual Homelessness Assessment Report to Congress, United States Department of Housing and Urban Development, 2014.

million on supportive housing for homeless individuals, adults with developmental disabilities and seniors trapped in nursing homes. By now it is incredibly clear to nearly everyone in the health sector that service-enriched housing is the most effective form of health care available to address the ravaging impacts of homelessness. Likewise, DHCS estimates that 11% of the Skilled Nursing Facility population really needs an affordable senior apartment with in-home supportive services rather skilled nursing.

Based on DHCS's own estimates, we could save Medi-Cal over \$240 million per year if we were able to find service-enriched affordable housing for the 10,000 seniors languishing unnecessarily in nursing homes at a cost to Medicaid of \$5500 per month. We desperately need CMS (Center for Medicaid and Medicare Services) to approve the State's request without further limitation. This would divert millions of expense in unnecessary hospital stays and nursing home care to the long-term solution of affordable housing with the services that these individuals really need.

## **II. What can be done at the State level to address the affordable housing crisis in California?**

- 1) **Support the Medicaid Wavier with State funding for housing.** The current proposal calls on counties to provide matching funds for any money spent on this initiative. We call on the State to show more financial leadership on this key reform. It is the State that will be the principal beneficiary of savings on nursing home care, so it would be fiscally prudent to invest money now to enable this effort to get started. By investing capital funds or providing a rental subsidy to developers of supportive or senior housing, we can take advantage of this unique cost-saving alternative.
- 2) **Find a funding source for affordable housing that the Governor will support.** Finally, I would like to focus on the Governor's shocking veto of the bipartisan housing bills SB 377 led by Senator Beall and AB 35 led by my Assemblyman David Chiu. As housing developers and activists, we have no choice but to believe the Governor's veto message on these bills as far-fetched as that explanation seems to us. From a public policy perspective, we are at a loss on the illogic of missing out on leveraging hundreds of millions in Federal 4% low-income housing tax credits in a state which such a clear housing supply problem. Since 2003-4, the number of new construction units funded with 4% credits has declined from 9,000 per year to around 2,000 per year. We don't understand why the Governor's office chose to ignore the evidence on the fiscal and job benefits of increasing affordable housing production

If the Governor is aware and concerned about leading the nation in homelessness and unaffordable housing markets, then we would call on him to take leadership on this issue and

let housing advocates and his colleagues in the Legislature how we can collectively deliver \$500 million per year in additional funding to affordable housing production in our state.

In closing, I want to thank the Congresswoman and the Senate Housing Committee for this opportunity. You have taken on a topic that urgently needs your attention and on behalf of millions of Californians in need of affordable housing, we hope that you will be successful in your efforts to both draw attention to the ongoing affordability challenges in our state and the need for a State role in addressing this critical problem.

Thank you.