

Innovative Solutions to Build Affordable Housing

Wednesday, March 9, 2016
2:30 p.m. - State Capitol Room 2040
Sacramento, CA 95814

BACKGROUND PAPER

Purpose of the Hearing

The purpose of this Senate Transportation and Housing Committee hearing is to: 1) identify critical affordable housing programs available at the state level; 2) understand what factors contribute to California's high housing prices and rental costs; 3) discuss what California can do to increase access to and encourage the construction of affordable housing despite recent reductions in state funding; and 4) explore innovative land use tools that locals are exploring and already implementing.

This background paper will provide an overview of the cost of housing for low-income persons and an overview of recent funding mechanisms at the state level. It will also discuss state and local proposals to address the shortage of affordable housing. It will conclude with questions for the committee to consider.

Overview

According to a 2015 Legislative Analyst's Office (LAO) report, *California's High Housing Costs: Causes and Consequences*, California's home prices and rents are higher than just about anywhere else in the country. This has dramatic impacts not only for California households across all income levels, but for the state's overall economy. According to that report, there are a number of factors that have contributed to these prices, including far less housing construction in California's coastal areas than is needed, high land prices in the coastal regions, and high builders' costs.

California has become one of the most expensive places to live in the country, which has disproportionately impacted the middle class and the working poor. Low-income housing units, if available, are often in serious states of disrepair, and working families are unable to make rent payments on their "affordable" housing rents. Additionally, California requires the third-highest wage in the country to afford housing, behind Hawaii and Washington, D.C. In California, the Fair Market Rent — which indicates the amount of money that a given property would command

if it were open for leasing — for a two-bedroom apartment is \$1,386. To afford this level of rent and utilities, without paying more than 30% of income on housing, a household must earn an hourly “housing wage” of \$26.65 per hour. This means that a person earning minimum wage must work an average of 3 jobs to pay the rent for a two-bedroom unit. In some areas of the state, these numbers are even higher.

According to the California Housing Partnership Corporation (CHPC)¹, California’s 2.2 million extremely low-income (ELI) and very low-income (VLI) renter households are competing for only 664,000 affordable rental units. This leaves more than 1.54 million of California’s lowest income households without access to affordable housing in a state with 21 of the 30 most expensive rental housing markets in the country. VLI households are those that earn less than 50% of the area median income, while ELI households earn less than 30%.

As a result, low-income families are forced to spend more and more of their income on rent, which leaves little else for other basic necessities. It also means that many renters must postpone or forego homeownership, live in more crowded housing, commute further to work, or, in some cases, choose to live and work elsewhere.

Statewide Housing Funding

California has also 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 Prop 46 and Prop 1C provided roughly 4-5 years of funding, and unfortunately the state’s Department of Housing and Community Development 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.

Due to the loss of redevelopment funds, the legislature approved and the governor signed two bills to permit local jurisdictions to fund affordable housing through tax increment financing. The first bill, SB 628 (Beall, Chapter 785, Statutes of 2014), allows a city or county to create an Enhanced Infrastructure Financing District (EIFD) to finance specified facilities and infrastructure projects, including housing for low- and moderate-income households, using tax increment revenue. The second bill, AB 2 (Alejo, Chapter 319, Statutes of 2015) authorizes local governments to create Community Revitalization and Investment Authorities (Authority) to use tax increment revenue to improve the infrastructure, assist businesses, and support affordable housing in disadvantaged communities. AB 2 also requires Authorities to deposit not less than 25% of all taxes allocated to it into a separate Housing Fund to be used for the purposes of increasing, improving, and preserving the community’s supply of low- and moderate-income housing available at an affordable cost.

¹ CHPC is a state-created nonprofit entity that is required to monitor, protect, and augment the supply of homes affordable to lower income Californians and provide leadership on affordable housing finance and policy.

Statewide Proposals

The solution from many experts is that California must find ways to build more housing to meet existing demands, as well as keep up with continued population growth. A follow-up report from the LAO, titled *Perspectives on Helping Low-Income Californians Afford Housing*, states that facilitating more private housing development in the state's coastal urban communities would help make housing more affordable for low-income Californians. The report suggests that increased housing supply for affluent populations will drive down costs for lower-income populations by increasing supply. While the report acknowledges that more housing stock is required to meet the needs of the growing population, it dismisses the notion that subsidies are necessary to build housing available to lower-incomes, particularly those with extremely-low incomes. The report reasons that affordable housing construction requires large public subsidies and that expanding federal housing choice vouchers (Section 8) would be prohibitively expensive.

In its April 2015 report, the CHPC recommended that California increase the supply of affordable homes by investing more money into the production and preservation of affordable homes available to households with ELI to moderate-incomes. CHPC will be updating that report again this year and will make the following recommendations for state action:

- Increase the amount of funding available to the state Low Income Housing Tax Credit (LIHTC) by \$300 million (similar to AB 35, Chiu, 2015);
- Pass SB 873 (similar to SB 377, Beall, 2015), which would increase the efficiency of the state LIHTC by avoiding federal taxation and therefore allowing more funds to stay in California for affordable housing construction;
- Pass Senator De León's "No Place Like Home" \$2 billion Prop 63 bond restructuring proposal;
- Pass a new statewide housing bond; and
- Allocate general fund dollars to existing state programs, such as the Multifamily Housing Program; Joe Serna, Jr. Farmworker Housing Program; and CalHome Program.

CHPC also recommends that California provide local governments the tools to create and preserve affordable housing by:

- Lowering the voter threshold for local funding measures from 2/3 vote to 55% (the same as local school bond measures) to help communities raise revenues to fund the development of infrastructure, such as transportation, housing, and parks; and
- Requiring the inclusion of a percentage of homes affordable to low- and moderate-income households in new housing developments by passing a law that permits inclusionary housing requirements (similar to AB 1229, Atkins, 2013).

Local Responses

With the loss of statewide funds, many local jurisdictions have been evaluating how to address the housing affordability crisis at the local level. In November 2015, the San Diego Housing Commission released a report called *Addressing the Housing Affordability Crisis in San Diego*

and Beyond, which found that affordability is disproportionately a burden for low-income households and that as of 2013 there were approximately 120,000 ELI families and only 20,000 affordable units available in San Diego. Additionally, the report highlights that a 3% reduction in the regulatory costs of San Diego's housing could open up housing alternatives to approximately 6,750 households and reverse the trend of net domestic out-migration of about 11,000 residents per year to a net positive inflow of about 7,000. The benefits could also lead to a \$3.1 billion gain in gross regional product, a \$2.5 billion gain in total personal income, and 37,000 jobs.

The report outlines 11 action steps to improve housing affordability in San Diego, including unlocking land, reducing construction costs, reducing operations and maintenance costs, and reducing financial costs. These changes will reduce local constraints on new housing production. A representative from the San Diego Housing Commission will speak more in detail to the committee about those recommendations.

Similarly, the housing market in the Bay Area has reached a crisis point. The region's workforce is commuting longer times, from farther distances, and paying a greater share of household income for housing, reducing quality of life and forcing businesses and families to relocate. The Bay Area Council reported in its "Roadmap for Economic Resilience" that the inability of the Bay Area to increase its housing stock has dramatically increased the cost of housing. The roadmap proposes three goals: 1) build housing stock, 2) reduce the cost of new home construction, and 3) find a new mechanism to fund or subsidize infrastructure development and housing construction so that the benefits and burdens of creating livable and affordable housing are shared among both new and existing residents and property owners. A representative from the Bay Area Council will speak more in detail to the committee about those recommendations.

Conclusion

High housing costs and the shortage of housing stock in California directly affect the future health of California's economy. As the economy continues to rebound, however, both state and local governments will need to give serious consideration to funding programs that encourage the construction of and access to housing that is affordable to all income levels. Additionally, governments at both levels will need to continue to evaluate how to break down local barriers to housing construction.

QUESTIONS TO CONSIDER

- 1) What is the current availability of state funding for housing?
- 2) What is and should be the state's role in increasing access to housing for all income levels?
- 3) Which programs should be funded to increase construction of housing for all income levels? What programs have been the most successful at providing affordable housing for ELI, VLI, and moderate-income earners?

- 4) What tools do locals need to encourage the construction of more housing? Additionally, what barriers can the state eliminate to encourage the construction of more housing?
- 5) Should government (either at the state or local level) be prioritizing housing for one particular income level over another?

SPEAKER BIOGRAPHIES

Ben Metcalf, Director — California Department of Housing and Community Development. Prior to recently joining the California Department of Housing and Community Development, Mr. Metcalf was the deputy assistant secretary in the Office of Multifamily Housing Programs at the U.S. Department of Housing and Urban Development (HUD) since 2013, where he served as senior advisor to the commissioner and assistant secretary of housing from 2011 to 2013 and as senior advisor to the deputy assistant secretary for Multifamily Housing Programs from 2010 to 2012. He was the project manager at BRIDGE Housing Corporation from 2004 to 2010, a research associate at the Center for Court Innovation from 2000 to 2001, and a development associate at Common Ground Community from 1998 to 2000. Mr. Metcalf earned a Master of Public Policy degree in public policy and urban planning from Harvard University, Kennedy School of Government.

Tia Boatman Patterson, Executive Director — California Housing Finance Agency. Tia Boatman Patterson promotes CalHFA's mission to create and finance progressive housing solutions. Ms. Boatman Patterson engages mortgage lenders, affordable housing developers, state and local agencies, advocacy organizations, public officials, and private financing markets so that more Californians will have a place to call home. Under her direction, CalHFA has increased single-family lending from essentially zero to more than \$1 billion and closed multifamily and Mental Health Services Act loans worth \$119 million with another \$200 million in Conduit Issuance. Ms. Boatman Patterson previously served on the CalHFA board of directors and was general counsel for the Sacramento Housing and Redevelopment Agency. She served as special assistant to the Speaker of the California State Assembly, providing policy expertise and advice on matters before the Assembly Committees on Housing and Community Development and Jobs and Economic Development. Ms. Boatman Patterson received her Bachelor of Arts in Political Science from San Diego State University, and her Juris Doctorate from the University of the Pacific, McGeorge School of Law.

Carol Galante, I. Donald Turner Distinguished Professor in Affordable Housing and Urban Policy — University of California, Berkeley. Carol Galante is also the Faculty Director of the Turner Center for Housing Innovation and co-chairs the Policy Advisory Board of the Fisher Center of Real Estate and Urban Economics. Ms. Galante served in the Obama Administration for over five years as the Assistant Secretary for Housing/Federal Housing Commissioner at HUD and as the Deputy Assistant Secretary for Multifamily Housing programs. Prior to her appointment at HUD, Ms. Galante was President and Chief Executive of BRIDGE Housing Corporation, the largest non-profit developer of affordable, mixed-income and mixed-use developments in California. Ms. Galante has also worked for local government in city planning and community economic development. She is a licensed real estate broker (currently inactive)

and holds a Master of City Planning from U.C. Berkeley and a Bachelor of Arts from Ohio Wesleyan.

Linda Mandolini, President— Eden Housing. Linda Mandolini has served Eden Housing as a project developer, as director of real estate development, and since 2001, as president. Eden Housing is one of California's oldest non-profit housing development companies and has developed or acquired more than 8,500 units throughout California. Ms. Mandolini oversees affordable housing production, resident support services, and property management components of the organization, and a staff of more than 300 employees. She is guided in her work by Eden Housing's active volunteer board of directors. Under her strong leadership, Eden has become one of the most productive and successful nonprofit affordable housing developers in California.

Ms. Mandolini is a leader in housing policy on the local, state and national level. She serves or has served on the Board, and has held leadership positions on the Board of: The Housing Trust of Silicon Valley, Non-Profit Housing Association of Northern California (NPH), California Housing Consortium (CHC), National Housing Conference (NHC), Enterprise Communities' Community Leadership Council, and International Housing Policy Exchange. Ms. Mandolini received her bachelor's from Wheaton College in Massachusetts, and earned a master's at Boston University.

Kevin Zwick, Chief Executive Officer — Silicon Valley Housing Trust Fund. Mr. Zwick has served as chief executive officer of Housing Trust Silicon Valley since October 2008. In this role, Mr. Zwick leads the overall direction, strategy, and impact of the Housing Trust and works to increase awareness of affordable housing issues in our region. During this time the Housing Trust has raised and invested over \$100 million into affordable housing in Santa Clara County and the surrounding community, and the Housing Trust became the first non-profit community development financial institution in the country to receive an S&P rating (AA-). Mr. Zwick has also helped lead key local and state affordable housing policy efforts, such as the passage of AB 532, securing Boomerang Funds, and adopting Housing Impact Fees in San Jose, Sunnyvale, Mountain View, and Cupertino. Mr. Zwick has worked in the field of affordable housing and community development since 1999. He received a master's degree in non-profit administration from the University of San Francisco, and graduated from the University of California at Berkeley with a degree in sociology. He lives in San Jose.

Mary Ann Gaido, Chair and President — Irvine Community Land Trust. Mrs. Gaido is a member of the City of Irvine Planning Commission and a former Irvine City Councilmember and Mayor. Mrs. Gaido has a long commitment to public service that has never wavered. She served on the Irvine Planning Commission and then the City Council in the 1970s and 1980s. In 2000, she once again stepped forward to serve on the Planning Commission. A longtime member of the League of Women Voters, Mrs. Gaido has always taken the lead in working for important government reforms.

Nico Calavita, Professor Emeritus, Graduate Program in City Planning — San Diego State University. Nico Calavita recently retired after 30 years of teaching in the graduate program in city planning at San Diego State University. Mr. Calavita's areas of interest include affordable housing and community development, growth management, the politics of growth, and

comparative planning. He is the author with Alan Mallach of *Inclusionary Housing in International Perspective: Affordable Housing, Social Inclusion, and Land Value Recapture*, published in 2010 by the Lincoln Institute of Land Policy. Recent publications include: *Public Benefit Zoning* (co-authored), prepared for Association of Bay Area Governments (ABAG) and the Metropolitan Transportation Commission (MTC) (2014), and “Practice Value Capture” in the American Planning Association’s magazine *Zoning Practice* (2015).

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