Housing and Local Government

This part of the Budget includes information related to housing and local governments.

Housing and Homelessness

California local governments have primary control over land use and housing-related decisions and can enact policies which either encourage or discourage housing construction. Because the state does not control land use decisions, its role in housing development is inherently limited to actions such as encouraging homeownership through its tax policy and helping to subsidize the development of affordable units. Of the approximately 13.9 million total homes and 4.3 million multifamily units in the state, approximately 3 percent of homes and 11 percent of rental units are affordable through legally binding restrictions. Of affordable units, approximately two-thirds receive funding from the state in the form of tax credits or subsidies from state departments. Because the state directly influences only this small segment of the housing market, efforts to increase housing construction depend largely on local land use decisions and market influences.

Local zoning and permitting decisions surrounding housing production in California have contributed to low inventories—even though demand has steadily increased. Discretionary local land use permitting and review processes have also lengthened the approval process and increased production costs, which have further limited increases to the housing supply. Further, community pressure and interest groups often use the current local review process to stall or stop housing projects, and these delays and denials place a strain on the state's housing supply by increasing project risks and costs. Consequently, the Department of Housing and Community Development (HCD) estimates that in the fourth Regional Housing Needs Assessment allocation period (2003 to 2014), housing unit permits (672,000) accounted for only 45 percent of projected need (1.48 million) to meet demand.

Today, approximately 1.5 million low-income California households pay more than half their income in rent, leading to a strained ability to pay for other household expenses. Furthermore, the lack of an adequate housing supply, which inflates housing costs overall, has helped to foster a high homeless population. In 2015, although California comprised 12 percent of the nation's population, it had 21 percent (115,700) of individuals experiencing homelessness in the United States. California has an even greater share of the chronically homeless, with over one-third of the nation's total. In addition to a number of social concerns, homelessness presents economic problems for cities, counties, and the state. Individuals experiencing chronic homelessness often have mental health issues and cycle among costly institutions, including inpatient hospitals, nursing homes, prisons and jails, and psychiatric treatment facilities. In 2009, a report on Los Angeles County noted that the public costs for people in supportive housing were one-fifth the public costs for people who were homeless ($605 versus $2,897 per month).

Although the state has a limited role in local land use decisions, it makes a sizable fiscal investment in housing. This investment must be maximized in a manner that will increase the pace of construction while reducing costs and avoiding delays. The state must target existing, or any new, housing resources to affordable housing developments that support state policies and objectives, like sustainable communities, transitional housing for former offenders, or supportive housing for homeless populations.

Funding for Affordable Housing

Historically, state funding for affordable housing and homelessness has been mostly limited to one-time General Fund appropriations, general obligation bond issuances, or the redirection of property taxes from local governments and K-14 schools to Redevelopment Agencies (RDAs).

The Housing and Emergency Shelter Trust Fund Act of 2002 (Proposition 46) and the Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 1C) provided a total of $4.95 billion for various affordable housing and homelessness programs. While the funding provided by these bonds is virtually gone, the state must continue to pay debt service on the bonds for up to three decades—about $400 million General Fund in 2016-17 and a total of $10.7 billion over the life of the bonds. As of June 2015, HCD reported that this funding has assisted in the construction of 67,000 new units, the rehabilitation of 13,500 units, and the preservation of 1,600 units.

State spending has targeted low-income populations through the construction of multi-family rental units and supportive housing. Since 2002, the Multifamily Housing Program—the most efficient and flexible state program—awarded approximately $1 billion and produced 17,200 units, while leveraging $3.50 of public or private investment for every dollar of state funding. The state also awarded approximately $430 million for the Supportive Housing side of the Multifamily Housing Program, which provided 5,700 units and leveraged $2.64 per dollar of state investment. From 2011 to 2015, federal tax credit leveraging rates associated with the above state-funded programs were $133,000 per affordable unit and $170,000 per affordable supportive housing unit.

For 2016-17, the May Revision supports approximately $3.2 billion in state and federal funding and award authority for various affordable housing and homelessness programs across a number of state entities as shown in Figure SLA-01. The largest new source of funding is the Affordable Housing and Sustainable Communities Program, which receives 20 percent of Cap and Trade funds to target affordable housing funding in ways that also reduce greenhouse gas emissions.

Prior to the elimination of the state's approximately 400 RDAs pursuant to Chapter 5, Statutes of 2011 (ABx1 26), 20 percent of RDA property tax funding, which included money redirected from K-14 schools, was set aside for affordable housing at the local level. After accounting for the RDAs' current obligations, the dissolution of RDAs resulted in a reduction of available funding for affordable housing at the local level by approximately $400 million annually. However, from 2011-12 to 2014-15, approximately $3 billion in property tax revenue has been returned to cities and counties as general purpose revenues, which includes the cities' and counties' share of unencumbered funds returned from the Low and Moderate Income Housing Funds. The May Revision estimates that in 2015-16 and 2016-17 combined, cities and counties will receive more than $1.3 billion in property tax revenue because of the dissolution of RDAs. Local governments continue to have complete discretion on how this money can be spent, including on affordable housing and homelessness.

Successor agencies to the RDAs have also reported outstanding loan balances due to cities and counties of $633 million, of which 20 percent ($126 million) of the loan

Figure SLA-01

2016-17 Affordable Housing and Homelessness Funding

(Dollars in Millions)

Department	*Program*	*Amount*
Department of Housing and Community Development	Mental Health Services Act Programs	$267
	Federal Funds	$112
	Housing for Veterans Funds	$75
	Regional Planning, Housing, and Infill Incentive Account	$22
	Office of Migrant Services	$6
	Various	$94
California Housing Finance Agency (CalHFA)[1]	Multifamily Conduit Lending	$300
	Multifamily Lending	$190
	Single Family 1st Mortgage Lending	$1,012
	Mortgage Credit Certificates	$130
	Single Family Down Payment Assistance	$48
	Special Needs Housing Program	$55 [2]
Strategic Growth Council	Affordable Housing and Sustainable Communities	$400 [3]
Tax Credit Allocation Committee	Low Income Housing Tax Credits (Federal)	$225 [4]
	Low Income Housing Tax Credits (State)	$61
	Farmworker Housing Assistance Tax Credits	$5
Department of Veterans Affairs	CalVet Farm and Home Loan Program	$66
Department of Social Services	CalWORKS Housing Support Program	$35
	CalWORKS Homeless Assistance Program	$30 [5]
Department of Finance	Community-Based Transitional Housing Program	$25
Department of Public Health	Housing Opportunities for Persons with AIDS (Federal)	$3
Office of Emergency Services	Homeless Youth and Exploitation Program	$2
California Department of Corrections and Rehabilitation (CDCR)	Integrated Services for Mentally-Ill Parolees	$2
	Specialized Treatment of Optimized Programming, Parole Service Center, Day Reporting Center, Female Offender Treatment and Employment Program	N/A [6]
Total		**$3,165**

[1] Amounts are the estimated lending activities from CalHFA's 2016-17 business plan.

[2] This amount represents a voluntary allocation of Proposition 63 funds from 11 participating counties.

[3] Of the amount appropriated, statute requires at least 50 percent be committed to affordable housing. This program may also fund transportation, infrastructure, and other related uses for projects reducing greenhouse gas emissions.

[4] This amount represents the 9 percent tax credits available in 2016 and an estimated figure for 4 percent credit awards based on 2015. This figure does not include the $3.9 billion of tax-exempt bond debt allocation that is available for award from the California Debt Limit Allocation Committee.

[5] This amount is an estimated figure based on actual assistance provided in 2015.

[6] The state provides a number of wrap-around supportive services through these four programs, including housing support, which cannot be separated from CDCR's general budget.

repayments received must be transferred to the Low and Moderate Income Housing Asset Funds administered by the housing successor entities. In 2016-17, the amount to be transferred is estimated to be more than $10 million. Additionally, successor agencies have reported outstanding loans that were due to the Low and Moderate Income Housing Funds totaling $424 million, which will now be repaid to the Low and Moderate Income Housing Asset Funds. In 2016-17, these repayments are estimated to be $98 million. Furthermore, with the passage of Chapter 325, Statutes of 2015 (SB 107), successor housing entities of the former RDAs may now use the estimated $170 million in bond proceeds issued from January 1, 2011, through June 28, 2011, for affordable housing purposes.

Construction Costs and Approval Process Reduces Impact of Funding Investment

Despite the state's sizeable investment in housing, the number of new units developed continues to be very low when compared to the demand for housing. Development costs and the local review process are barriers that reduce the number of units that can be developed.

The average total development cost was $332,000 per unit for new construction projects that received housing tax credits from 2011 through 2015. Figure SLA-02 demonstrates that development costs per unit vary greatly across the state, from $207,000 in Kings and Tulare counties to nearly $600,000 in San Francisco.

Land costs, accounting for an average of 12 percent of new construction costs, typically cannot be influenced by governments. Yet other areas, such as streamlining local reviews, present a significant opportunity for savings. The 2014 Affordable Housing Cost Study found that local opposition increased project costs by 5 percent, and project changes due to local design and review increased project costs by 7 percent. The state's investment must incorporate policies to control development costs, given the high cost of housing construction.

Housing Tools

In addition to direct subsidies, the state influences affordable housing decisions by providing local governments with tools to help fulfill their housing priorities and responsibilities. A number of measures passed by the Legislature and signed by

Figure SLA-02

2011-2015 Affordable Housing Construction by County[1]

(Dollars in Thousands)

	Cost Per Unit
San Francisco	$591
San Mateo	442
Santa Cruz	436
Alameda & Contra Costa	418
Santa Clara	405
Ventura	400
Los Angeles	372
Napa & Sonoma	356
San Diego	350
Orange	340
San Luis Obispo	335
Solano & Yolo	312
El Dorado, Nevada & Placer[2]	311
Monterey & San Benito	310
San Bernardino	298
Sacramento	287
Santa Barbara	283
Imperial & Riverside	281
San Joaquin[2]	269
Colusa & Lake	261
Butte, Glenn, Sutter & Yuba	256
Kern	255
Shasta[2]	255
Madera, Merced & Stanislaus	244
Del Norte, Humboldt & Mendocino	237
Fresno	212
Kings & Tulare	207
STATEWIDE	**$332**

[1] Reflects all new construction projects for counties receiving tax credits from the Tax Credit Allocation Committee. Some projects include total development costs, while others exclude land cost.

[2] Figures for counties with fewer affordable housing projects were subject to a small sample size.

the Governor in recent years that allow local governments to invest in housing and other infrastructure while also reducing development costs to facilitate construction include:

- Enhanced Infrastructure Financing Districts—Chapter 785, Statutes of 2014 (SB 628), allows cities and counties to create an Enhanced Infrastructure Financing

District that utilizes property taxes and other available funding for various types of projects including low and moderate income housing projects.

- Community Revitalization and Investment Authorities—Chapter 319, Statutes of 2015 (AB 2), allows specified disadvantaged areas of California to create a Community Revitalization Investment Authority that utilizes property taxes and other available funding for various types of projects including affordable housing.
- Planning and Zoning Density Bonuses—Chapter 699, Statutes of 2015 (AB 744), reduces minimum parking requirements for developers who receive a density bonus for projects that meet specified criteria.
- Alternative CEQA Analysis—Chapter 386, Statutes of 2013 (SB 743), provides an alternative approach for CEQA analysis of transportation impacts of transit-oriented development and new exemptions for certain projects.

While the full impact of these recently passed measures is unknown, the Administration is committed to examining other opportunities surrounding housing and its affordability. To aid this effort, HCD will release the 2025 Statewide Housing Plan in the summer of 2016. This plan will frame California's housing challenges and opportunities and will analyze potential tools, resources, and state actions needed to address housing undersupply and affordability. Over the course of the summer and fall, the Administration intends to use this plan to foster a robust discussion around new approaches and opportunities to address the challenges of affordable housing.

Proposals to Reduce Housing Costs

The state's housing affordability and homelessness problems are long-standing, and solutions will not be easy. Ultimately, policy changes that will increase the housing supply will be most effective at reducing housing costs.

To this end, the Administration proposes legislation requiring ministerial, "by-right" land use entitlement provisions for multifamily infill housing developments that include an affordable housing component. This would help to restrain development costs, improve the pace of housing production by increasing certainty and shortening the local entitlement process, and encourage an increase in housing supply. Under the proposed legislation, a local government could not require a conditional use permit, planned unit development permit, or other discretionary local government review or approval for qualifying developments that include affordable housing, provided they are consistent with objective general plan and zoning standards and, where applicable, are subject to mitigating measures to address potential environmental harm. It is counterproductive to continue providing funding for housing under a system which slows down approvals in areas already vetted and zoned for housing, which only delays development and increases costs.

The Administration is also supportive of other initiatives to increase housing supply where such initiatives do not create a state reimbursable mandate. This includes using inventory such as accessory dwelling units (additional living quarters on single-family lots that are independent of the primary dwelling unit) and greater clarity on the use of the Density Bonus Law, which requires local governments to allow more total units in a project than otherwise permitted by existing zoning to promote the feasibility of affordable housing. Policies can increase the availability of accessory dwelling units with expanded ministerial approval, shortened permitting timelines, reduced duplicative fees, and relaxed parking requirements, consistent with the principles identified by SB 1069 (2016). The state can further increase supply by eliminating overly burdensome requirements for accessory dwelling units identified by AB 2299 (2016), such as passageways to public streets and setbacks of five feet from lot lines. Additionally, increased use of the Density Bonus Law can prove greater certainty to developers through such amendments as proposed in AB 2501 (2016).

Finally, the May Revision proposes sensible changes in law to further the California Housing Finance Agency's (CalHFA) goal of helping more families become first-time homebuyers by combining remaining funding totaling $176.5 million from multiple downpayment assistance programs into the MyHOME Program.

Funding for Mental Health-Focused Housing Assistance

There is increasing evidence that demonstrates the effectiveness of interventions such as rapid rehousing and permanent supportive housing in addressing chronic homelessness. The creation of a $35 million housing program within CalWORKs over the last two years, CalHFA's Special Needs Housing Program established this year, and the new Emergency Solutions Grant regulations recently promulgated by HCD are using this approach. Building upon these current efforts, the May Revision endorses the Senate's concept of a $2 billion bond of a portion of future Proposition 63 mental health revenues. This funding would enable HCD to develop and administer homelessness and affordable housing programs through a Mental Health Services Act-Supportive Housing Program and Tenant-Based Rental Assistance Program, with a particular focus on chronic homelessness. The May Revision proposes first-year funding of $267 million from the bond proceeds.

Community-Based Transitional Housing Program

The Governor's Budget proposed a $25 million siting grant program to encourage local communities to support housing that provides treatment and reentry programming to offenders from the criminal justice system. Local governments, which have primary control over land use, zoning and permitting, may be understandably reluctant to expand housing for ex-offenders, yet it is in everyone's interest to help this population transition into productive roles in their communities. The Administration convened a series of meetings in recent months with stakeholders to develop a framework for rewarding communities that agree to issue new, long-term permits for hard-to-site facilities. The May Revision includes statutory language to implement this grant program. Significant components of the Community-Based Transitional Housing Program include:

- Additional funds to local communities that site, for a minimum of 10 years, new transitional housing and supportive services for offenders released from state prison or county jail.
- A requirement that a portion of the funds be used by the city or county to increase public safety around the facility and improve communication with neighbors.
- A requirement that grant funding be shared with non-profit facility operators to support rehabilitative services, security, and community outreach.
- A competitive application process that will protect existing permitted facilities, examine the current concentration of permitted facilities in the community, review the past performance of the facility operator, and give priority to cities and counties that leverage or provide other funding for the facility.

Redevelopment Agencies

The winding down of the state's former redevelopment agencies (RDAs) continues to be a priority for the Administration. Chapter 5, Statutes of 2011 (ABx1 26), eliminated the state's approximately 400 RDAs and replaced them with locally organized successor agencies that are tasked with retiring the former RDAs' outstanding debts and other legal obligations. The Administration is currently in the process of implementing Chapter 325, Statutes of 2015 (SB 107), which made numerous changes to the dissolution process in 2016. The elimination of RDAs allows local governments to protect core public services and priorities by returning property tax money to cities, counties, special districts, and K-14 schools.

The May Revision estimates that cities will receive an additional $673 million in general purpose revenues in 2015-16 and 2016-17 combined, with counties receiving $710 million and special districts $316 million. It is estimated that additional ongoing property tax revenues of more than $3.2 billion will be distributed to cities, counties, and special districts by 2019-20. Additionally, the May Revision estimates that Proposition 98 General Fund savings resulting from the dissolution of RDAs will be $1.3 billion in 2016-17.