

HOUSING AND LOCAL GOVERNMENT

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

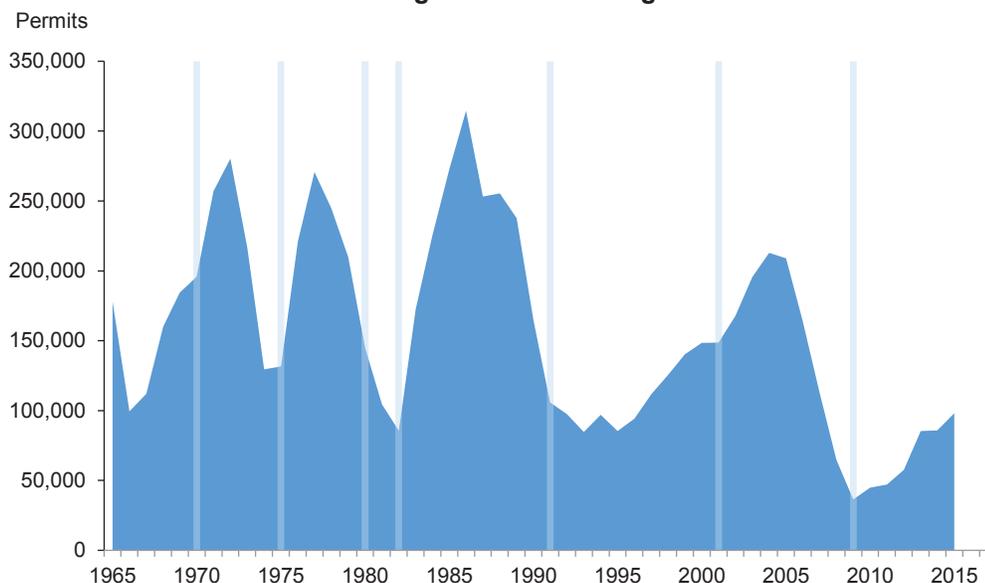
HOUSING IN CALIFORNIA

California faces a shortage of housing, particularly affordable housing, for its growing population. Though demand has increased steadily, construction rates continue to lag due to a number of barriers, including local zoning and permitting decisions surrounding housing production. The state projects 180,000 units of new housing construction is needed annually over the next 10 years to meet the state's growing housing demand. However, production has remained below 100,000 new units annually over the last eight years, which represents the lowest sustained permitting levels since 1965. Figure SLA-01 demonstrates how housing production since the last recession has lagged historic economic recoveries.

The lack of housing supply creates a number of challenges for the state and its residents. High housing prices limit the amount families can otherwise invest in nutrition, education, and other necessities after paying for rent. Approximately half of all California households are spending more than 30 percent of their income on housing costs, and nearly one-third of all California households are spending more than 50 percent of income on housing costs.

Members of median- to moderate-income professions such as teachers, firefighters, police officers, and nurses are increasingly unable to afford to live in the communities

Figure SLA-01
Post-Recession Housing Construction Lags Historic Recoveries



that they serve. When households spend increasing shares of their incomes on housing costs, it leaves less money that could otherwise be used to support the state’s economy. Additionally, insufficient housing in job centers hinders the state’s environmental quality and runs counter to the state’s climate change goals. When Californians seeking affordable housing are forced to drive longer distances to work, an increased amount of greenhouse gases and other pollutants is released. Recent studies indicate that high- density housing minimizes environmental harm because people have the least environmental impact when living in urban areas.

The housing shortage directly impacts the number of individuals experiencing homelessness in California as well. In 2016, although California comprised 12 percent of the nation’s population, it had 22 percent (118,100) of individuals experiencing homelessness in the United States as reported by the U.S. Department of Housing and Urban Development. California had an even greater share of the chronically homeless, with 39 percent of the nation’s total.

Although the state has a number of policies and programs in place to construct affordable housing and assist the homeless, policy changes that lead to an increase in the

housing supply are the most effective long-term solution for reducing housing costs for all Californians.

LOCAL DECISIONS DRIVE PER-UNIT COSTS

Local governments have primary control over land-use and housing-related decisions, and can enact policies that either encourage or discourage housing construction, which impacts housing costs for all Californians. Even though job and housing markets cross jurisdictional boundaries, housing entitlements and permits are determined locality by locality.

Throughout the development process, each local government is faced with factors that discourage housing development, including community opposition, incentives to approve sales-tax generating development over residential development, and market conditions, such as high land and construction costs.

The number of new units developed continues to be very low in many jurisdictions compared to the projected need. Figure SLA-02 demonstrates that housing production rates, proportional to projected housing need, vary widely across the state. Between 2003 and 2014, only 47 percent of projected need was constructed and not one of the state's regions built enough housing to meet all identified housing needs. Construction rates were lowest for housing serving lower income families. Total development costs average \$332,000 per unit for the construction of new affordable units, which limits the number of units that can be built with limited resources.

To address the statewide housing shortage more units need to be built at a lower per-unit cost. Local factors that drive up per-unit costs include permitting and impact fees, delays in permit approvals, and parking requirements. These cost drivers can add tens of thousands of dollars to the cost of constructing housing.

FUNDING FOR AFFORDABLE HOUSING

The state continues to target its limited resources in a manner that supports statewide policies and objectives, such as sustainable communities, transitional housing for former offenders, and supportive housing for homeless populations. The Budget reflects \$3.2 billion in state and federal funding and award authority as shown in Figure SLA-03. These programs provide grants and loans to construct affordable housing, assist first-time

Figure SLA-02
Total Housing Need Constructed and Cost of Affordable Housing Construction
 (Dollars in Thousands)

	Housing Need Constructed ^{1/}	Cost Per Affordable Unit ^{2/}
San Diego	84%	\$350
Kern	64%	255
San Francisco	64%	591
San Luis Obispo & Santa Barbara	62%	300
Napa & Sonoma	58%	356
El Dorado, Nevada & Placer ^{3/}	56%	311
Orange	56%	340
Santa Clara	55%	405
Alameda & Contra Costa	52%	418
Ventura	51%	400
Santa Cruz	49%	436
Imperial & Riverside	49%	281
Fresno	48%	212
Inyo, Mono & Mariposa	47%	-
Sacramento	46%	287
San Mateo	42%	442
San Bernardino	42%	298
Los Angeles	41%	372
Solano & Yolo	39%	312
Siskiyou, Tehama & Trinity	38%	-
Marin	38%	-
Del Norte, Humboldt & Mendocino	38%	237
Alpine, Amador, Calaveras & Tuolumne	35%	-
Lassen, Modoc, Plumas & Sierra	33%	-
San Joaquin ^{3/}	29%	269
Kings & Tulare	28%	207
Butte, Glenn, Sutter & Yuba	27%	256
Colusa & Lake	19%	261
Shasta ^{3/}	17%	255
Madera, Merced & Stanislaus	14%	244
Monterey & San Benito	9%	310
STATEWIDE	47%	\$332

^{1/} Reflects share of net housing construction of total need identified in the fourth Regional Housing Needs Assessment allocation period (2003 to 2014).

^{2/} Reflects all new construction projects for counties receiving tax credits from the Tax Credit Allocation Committee from 2011-2015. Counties without a reported cost did not have any affordable housing projects built using tax credits allocated during this period.

^{3/} Figures for counties with fewer affordable housing projects were subject to a small sample size.

Figure SLA-03
2017-18 Affordable Housing and Homelessness Funding
(Dollars in Millions)

<i>Department</i>	<i>Program</i>	<i>Amount</i>
Department of Housing and Community Development	No Place Like Home Program	\$262
	Federal Funds	\$122
	Housing for Veterans Funds	\$75
	Office of Migrant Services	\$6
	Various	\$15
California Housing Finance Agency ^{1/}	Single Family 1st Mortgage Lending	\$1,250
	Multifamily Conduit Lending	\$300
	Multifamily Lending	\$200
	Mortgage Credit Certificates	\$165
	Single Family Down Payment Assistance	\$60
	Special Needs Housing Program	\$35 ^{2/}
Strategic Growth Council ^{3/}	Affordable Housing and Sustainable Communities	TBD
	Transformative Climate Communities	TBD
Tax Credit Allocation Committee	Low Income Housing Tax Credits (Federal)	\$241 ^{4/}
	Low Income Housing Tax Credits (State)	\$95
	Farmworker Housing Assistance Tax Credits	\$6
Department of Veterans Affairs	CalVet Farm and Home Loan Program	\$230
	Transitional Housing Program, Veterans Homes of California	\$2
Department of Social Services	CalWORKS Housing Support Program	\$47
	CalWORKS Homeless Assistance Program	\$29 ^{5/}
	CalWORKS Family Stabilization, Housing Component	\$12 ^{5/}
Office of Emergency Services	Transitional Housing Program, Victim of Crimes Act	\$18
	Homeless Youth Emergency Services	\$10
	Domestic Violence Housing First Program	\$5
	Homeless Youth and Exploitation Program	\$2
Department of Health Care Services	Whole-Person Care Pilot Program, Health Homes Program, Mental Health Services Act Community Services and Supports, Projects for Assistance in Transition from Homelessness	N/A ^{6/}
California Department of Corrections and Rehabilitation	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		\$3,189

^{1/} Amounts are the estimated lending activities from 2016-17 trends.

^{2/} This amount represents a voluntary allocation of Proposition 63 funds from 16 participating counties.

^{3/} The Affordable Housing and Sustainable Communities program will reflect 20 percent of Greenhouse Gas Reduction Fund revenues; however, amounts have not yet been determined for 2017-18. The Transformative Climate Communities program (\$140 million for 2017-18) funds various activities, including housing, as an eligible capital component; however, the investment in housing will not be determined until awards are made.

^{4/} This amount represents the 9 percent tax credits allocated in 2017-18 and an estimated figure for 4 percent credit awards based on 2014-2016 averages. 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 represents an estimate of the portion of the program associated with housing and homelessness activities.

^{6/} The state provides a number of wrap-around supportive services through these programs, including housing support, which cannot be separated from the Department of Health Care Services' and Department of Corrections and Rehabilitation's general budgets.

homeowners with down payments, and offer various supports for individuals and families experiencing homelessness.

Previous affordable housing programs have come at a significant cost to the General Fund. The state continues to pay debt service on 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). Though the funding provided by these bonds has been expended for the construction or rehabilitation of approximately 80,000 affordable units, the state must pay debt service totaling \$355 million General Fund in 2017-18 and a total of \$10.7 billion over the life of the bonds. Issuing further General Obligation bonds would be an inefficient and ineffective use of General Fund resources.

RECENT POLICY CHANGES

Last year, the Administration proposed legislation to increase the housing supply through a streamlined permit approval process that would have eliminated duplicative administrative barriers, such as discretionary local government reviews for housing developments consistent with objective general plan and zoning standards. As the streamlining of the local approval process was not adopted and the General Fund's condition has deteriorated, the one-time \$400 million General Fund set-aside is no longer available. However, the Administration and Legislature approved measures that facilitate affordable housing development at the local level and assist individuals and families experiencing and at risk of homelessness:

- The No Place Like Home Program (AB 1618 and AB 1628)—Authorizes a \$2 billion bond secured by a portion of future Proposition 63 Mental Health Services Act revenues, subject to court validation, to address homelessness for individuals with mental health needs through the provision of permanent supportive housing.
- 2016 Budget Act—Includes \$149.4 million General Fund (\$100 million one-time) in new funding for housing and homelessness programs, including \$35 million for the new California Emergency Solutions Grant program and \$10 million for the Homeless Youth and Exploitation Emergency Services Pilot Projects to rapidly rehouse individuals, youth, and families experiencing homelessness.
- Homelessness (SB 1380 and AB 2176)—Creates a Homeless Coordinating and Financing Council and authorizes emergency bridge housing communities in the City of San Jose.

- Density Bonus Law (AB 2442, AB 2501, and AB 2556)—Expands and clarifies various provisions that provide size and other bonuses to housing developers that meet affordability requirements.
- Accessory Dwelling Units (SB 1069 and AB 2299)—Streamlines permits and requires local ordinances to facilitate the development of these low-cost housing options that provide additional living quarters on single-family lots that are independent of the primary dwelling unit.
- Affordable Housing Beneficiary Districts (AB 2031)—Allows a local government, with an existing successor agency to a former redevelopment agency, to bond against the property tax revenues it receives as a result of redevelopment agency dissolution, provided the funding is for affordable housing purposes.

Additionally, in prior legislative sessions, the Governor signed measures that established Enhanced Infrastructure Financing Districts and Community Revitalization and Investment Authorities, which are important, yet underutilized, tools that local governments can use to leverage their existing resources to address housing. During the November 2016 election, voters in various local jurisdictions across the state also approved \$2.7 billion in local bonds to house the homeless and support the construction of affordable housing.

HOUSING POLICY PRINCIPLES

The Administration is committed to working with the Legislature on the development of a legislative package to further address the state’s housing shortage and affordability pressures. Such a package should include additional reforms and any new funding should not rely on the General Fund. Because it is counterproductive to develop a new funding source for affordable housing under a system that increases time, risk, and cost, the Administration puts forth the following principles:

- Streamline Housing Construction—Reduce local barriers to limit delays and duplicative reviews, maximize the impact of all public investments, and temper rents through housing supply increases.
- Lower Per-Unit Costs—Reduce permit and construction policies that drive up unit costs.
- Production Incentives—Those jurisdictions that meet or exceed housing goals, including affordable housing, should be rewarded with funding and other regulatory benefits. Those jurisdictions that do not build enough to increase

production should be encouraged by tying housing construction to other infrastructure-related investments.

- Accountability and Enforcement—Compliance with existing laws—such as the housing element—should be strengthened.
- No Impact to the General Fund—No new costs, or cost pressures, can be added to the state’s General Fund, if new funding commitments are to be considered. Any permanent source of funding should be connected to these other reforms.

REDEVELOPMENT AGENCIES

The winding down of the state’s former redevelopment agencies continues to be a priority for the Administration. Chapter 5, Statutes of 2011 (ABx1 26), eliminated the state’s approximately 400 redevelopment agencies and replaced them with locally organized successor agencies that are tasked with retiring the former redevelopment agencies’ outstanding debts and other legal obligations. The elimination of redevelopment agencies has allowed local governments to protect core public services by returning property tax money to cities, counties, special districts, and K-14 schools.

In 2011-12 through 2015-16, approximately \$1.7 billion was returned to cities, \$2.1 billion to counties, and \$658 million to special districts. The Budget anticipates that cities will receive an additional \$733 million in general purpose revenues in 2016-17 and 2017-18 combined, with counties receiving \$869 million and special districts \$260 million. The Budget anticipates that additional ongoing property tax revenues of more than \$900 million annually will be distributed to cities, counties, and special districts. This is a significant amount of unrestricted funding that can be used by local governments to fund police, fire, housing, and other public services.

In 2011-12 through 2015-16, approximately \$5.9 billion was returned to K-14 schools. The Budget anticipates Proposition 98 General Fund savings resulting from the dissolution of RDAs will be \$1.3 billion in 2016-17. Proposition 98 General Fund savings are expected to be \$1.4 billion in 2017-18 and on an ongoing basis. When Test 1 of the Proposition 98 calculation is operative, funds above this amount will increase available resources for K-14 schools.

LOCAL UPDATE OF CENSUS ADDRESS PROGRAM

The Budget includes \$7 million General Fund for the Local Update of Census Address Program. The program will provide grants ranging from \$7,500 to \$125,000 to cities and counties to encourage their voluntary participation in efforts to ensure the accuracy of the Census Bureau's Master List of addresses. The program's goal is to count all California residents in the 2020 Census by giving the Census Bureau an accurate listing of every residential dwelling in the state.

Unlike with prior Censuses, the Census Bureau will not conduct 100 percent in-field canvassing to validate the Master List of addresses. For the 2020 Census, the Census Bureau anticipates it will perform in-field canvassing only 25 percent of the time. Validation of the Master List of addresses is critically important to prevent an undercount of the state's population.

The Department of Finance will administer the program and authorize distribution of grant funds. To receive a grant, a city or county must register with the Census Bureau, submit the required address materials to the Census Bureau, and provide Finance with the results of the address review. The Census Bureau will provide Finance status updates on the adequacy of each jurisdiction's participation.

Each city's and county's grant will be based on the volume of housing transactions within its jurisdiction between 2010 and 2016.

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