

# HOUSING AND LOCAL GOVERNMENT

California is in the midst of a housing crisis due to decades of historical underproduction of supply when compared to demand. Of the estimated 200,000 units of housing that are needed annually merely to keep up with population growth, only 113,000 units were permitted in 2017. Since 2007, fewer than 750,000 units were permitted, accounting for only 40 percent of the projected need.

Affordability is no longer a problem unique to the state's major urban centers. Throughout the state, renters struggle to pay for housing, often doing so at the expense of other basic needs such as food, health care, and transportation. While California's median income has just recently surpassed pre-recession levels, median rent has continued to rise. Statewide, half of all renters are rent-burdened, meaning more than 30 percent of their income goes to housing, and nearly a third of all renters are severely rent-burdened, with more than half of their income going to housing. Over 80 percent of low-income renters in the state are rent-burdened.

The amount of income paid toward housing, and the uncertainty of future housing costs, has broad impacts on the overall quality of life for California families. Additionally, a lack of affordable housing directly contributes to the increased homelessness seen across the state. More must be done to increase housing production across the state to ease this crisis and give more Californians the opportunity to become economically secure through reduced housing costs, and achieve the dream of homeownership.

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### **BARRIERS TO BUILDING**

Local governments have a key role in ensuring the building of adequate numbers of housing units to meet local needs. They have primary control over land use and housing-related decisions and enact policies that either encourage or discourage housing construction.

The high cost of development and local decisions are barriers to building more housing. The average total development cost of affordable housing was \$332,000 per unit for new construction projects that received housing tax credits from 2011 through 2015. Local jurisdictions add to development costs through lengthy review processes. For example, the state's 2014 Affordable Housing Cost Study found that project changes due to local design and review increased costs by seven percent. Local opposition also increased project costs. Additionally, fees such as planning service fees and impact fees charged by local governments contribute substantially to the cost of development. These fees can vary widely by jurisdiction ranging up to \$150,000 for a single-family home and \$75,000 for each multi-family housing unit.

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### **RECENT INVESTMENTS**

The state's role in housing development has generally focused on encouraging homeownership through tax policy and helping to subsidize the development of affordable units. The state has provided local jurisdictions with a variety of tools to help fulfill their housing responsibilities, including providing incentives to streamline development, promoting local accountability to adequately plan for needed housing, shortening the housing development approval process, and investing in affordable housing production through dedicated real estate transaction fee revenues (estimated at \$289 million annually) and a \$4 billion voter-approved housing bond (Chapter 365, Statutes of 2017, SB 3). (See Figure HLG-01.) Additionally, the state invests 20 percent of Cap-and-Trade auction proceeds in the Affordable Housing and Sustainable Communities program to fund land-use, housing, transportation, and land preservation projects to support infill and compact development that reduce greenhouse gas emissions.

Figure HLG-01  
**SB 3 Housing Bond Allocations**  
 (in Millions)

	<b>Program</b>	<b>Allocation</b>
<b>Rental Shortage</b>	Multifamily Housing Program	\$1,500
<b>Farmworker</b>	Joe Serna, Jr. Farmworker Housing Grant Program	300
<b>Infrastructure and Incentives</b>	Local Housing Trust Fund	300
	Transit-Oriented Development	150
	Infill Infrastructure Grant	300
<b>Homeownership</b>	CalHFA Down Payment Assistance	150
	CalHome	300
<b>Veterans</b>	CalVet Farm and Home Loan	1,000
		<b>\$4,000</b>

## INCREASING HOUSING PRODUCTION

While some local jurisdictions have used these tools and contributed to their housing supply, more production across the state is necessary to address the larger housing crisis. The Budget includes significant investments (totaling \$1.3 billion General Fund plus expanded tax credits) to remove barriers and increase long-term housing production, particularly for low- and moderate-income housing.

### SHORT-TERM PLANNING AND PRODUCTION GRANTS

The Budget includes \$750 million General Fund one-time to partner with and incentivize local governments to jump-start housing production through technical assistance and general purpose funding. The Department of Housing and Community Development (HCD) will establish higher short-term statewide goals for new housing production across all income levels and will allocate these goals to local jurisdictions. Local governments will receive grants (\$250 million of the \$750 million) to support technical assistance and staffing to develop plans to reach these higher goals. This includes, but is not limited to: rezoning for greater density, completing environmental clearance, permitting units, and revamping local processes to speed up production. The state will review these efforts and certify that certain milestones have been reached. As jurisdictions reach these milestones, funding (\$500 million of the \$750 million) will be available to cities and counties for general purposes.

### **LONG-TERM STATEWIDE HOUSING PRODUCTION STRATEGY**

The Administration will develop a strategy to revamp the current Regional Housing Needs Assessment (RHNA) process, which determines the amount and type of housing regions and local jurisdictions must produce to meet their need. Under Chapter 370, Statutes of 2017 (AB 72) and Chapter 958, Statutes of 2018 (AB 686), HCD will be taking a more active role in housing element reviews. Moving from an advisory role, HCD will now oversee and enforce regional housing goals and production. HCD will determine a methodology for allocating housing needs to regions and local jurisdictions, with local input.

These long-term housing production targets will be more ambitious than the short-term housing goals mentioned above. As HCD develops these targets, local jurisdictions will have lead time to begin reformulating their housing plans, using the grants above to leverage other sources of funding, such as their general funds and private dollars, to meet their targets.

Going forward, the state will strongly encourage jurisdictions to contribute to their fair share of the state's housing supply by linking housing production to certain transportation funds and other applicable sources, if any. The Administration will convene discussions with stakeholders, including local governments, to assess the most equitable path forward in linking transportation funding and other potential local government economic development tools to make progress toward required production goals.

### **MODERATE-INCOME HOUSING PRODUCTION**

The Budget makes a sizable investment of \$500 million General Fund one-time in the development of housing for moderate-income households. The California Housing Finance Agency (CalHFA) will expand its Mixed-Income Loan Program, which provides loans to developers for mixed-income developments that include housing for moderate-income households at a lower subsidy level than traditional state programs. This additional investment will jump-start the estimated \$43 million in annual Chapter 364, Statutes of 2017 (SB 2) revenues dedicated for this purpose, and pair with the proposed tax credit program targeting households with incomes between 60 to 80 percent of Area Median Income (see below).

### **EXPANDED STATE HOUSING TAX CREDIT PROGRAM**

Tax credits garner private investment in affordable housing by offering a dollar-for-dollar credit against an investor's state or federal taxes owed. Two federal credits are

provided for the state to allocate, the 9 percent credit and the 4 percent credit, which are provided annually over 10 years. The 9 percent program is competitive and provides approximately 70 percent of a project's total costs. In its two funding rounds per year, the program has been historically oversubscribed with twice as many applicants as awards. The 4 percent program, which is currently underutilized, is non-competitive and provides approximately 30 percent of a project's total costs.

The state credit program supplements these two federal credits and can be allocated over four years. The state credits pair with federal credits to reduce a given housing development project's remaining funding gap. From 2011-2018, the state program allocated \$819 million to support approximately 18,000 affordable units, for an average of \$45,500 per unit.

The Budget proposes to expand the state tax credit program in 2019-20 up to \$500 million, and up to \$500 million annually thereafter upon an appropriation. The additional authority includes \$300 million for the existing state tax credit program, targeted at new construction projects that pair with the underutilized 4 percent federal tax credit program. The remaining \$200 million will be allocated through a new program that targets housing development for households with incomes between 60 to 80 percent of Area Median Income, a population not typically served by the state's housing programs. This investment will serve as a down payment toward producing more mixed-income housing, in combination with CalHFA's Mixed-Income Loan Program expansion detailed above.

These tax credit investments are coupled with a redesign of the existing tax credit programs to promote cost containment and increase the construction of new units.

### **INNOVATION CHALLENGE—EXCESS STATE PROPERTY**

The state has identified many excess state properties that are suitable for housing development. Additional excess state properties will be identified in an expedited manner. The Budget proposes soliciting affordable housing developers to build demonstration projects that use creative and streamlined approaches to building affordable and mixed-income housing (for example, using modular construction). Affordable housing developers selected through a competitive process will receive low-cost, long-term ground leases of excess state property. The state will confer with local governments in certain cases to discuss a land exchange when such an exchange could lead to more housing being built within the jurisdiction.

As they will not need upfront capital to purchase the land and will not need to wait for local review processes, affordable housing developers will have greater flexibility to find innovative techniques to produce units more quickly and cost-efficiently than a traditional project. Should these demonstrations prove successful, this initiative can be expanded at the state level and serve as a model to localities for more efficient building.

### **ECONOMIC DEVELOPMENT TOOLS MADE MORE ATTRACTIVE**

Various economic development tools have been introduced following the dissolution of Redevelopment Agencies (RDAs), including Enhanced Infrastructure Financing Districts (EIFDs). However, only three EIFDs have been formed since statute created them in 2014. EIFDs can be created by cities or counties without voter approval and expend tax increment revenues without voter approval. However, an EIFD must receive 55-percent voter approval to issue debt.

The Budget encourages the formation of additional EIFDs through removal of the 55-percent voter approval requirement to issue debt. This change will allow EIFDs to support longer-term infrastructure commitments, similar to former RDAs.

The state will also make EIFDs a more attractive economic tool by pairing them with the federal Opportunity Zones program. To make Opportunity Zones more effective, the state will conform to federal law allowing for deferred and reduced taxes on capital gains in Opportunity Zones for investments in green technology or in affordable housing, and for exclusion of gains on such investments in Opportunity Zones held for 10 years or more. Additionally, the Governor's Office of Business and Economic Development will help foster relationships between local EIFDs and investors to facilitate investments for disadvantaged communities or other targeted areas. The state will explore layering additional programs on Opportunity Zones and EIFDs to increase the production of affordable and moderate-income housing.

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## TOTAL HOUSING AND HOMELESSNESS INVESTMENT

Housing is a statewide issue and a lack of affordable housing directly contributes to the increased homelessness seen across the state. To address these crises, the Administration proposes to make significant investments through a multi-pronged approach that includes incentives to increase housing production and additional resources to provide access to shelter and services to individuals and families with immediate needs. In total, the Budget includes \$7.7 billion across multiple departments and programs to address housing and homelessness throughout the state (see Figure HLG-02).

Figure HLG-02  
**2019-20 Affordable Housing and Homelessness Funding**  
 (Dollars in Millions)

Department	Program	Amount
	Housing Planning and Production Grants	\$750
	Veterans and Affordable Housing Bond Act Programs (SB 3)	\$526
	No Place Like Home Program	\$400
Department of Housing and Community Development	Building Homes and Jobs Fund Programs (SB 2)	\$277
	Federal Funds	\$228
	Housing for Veterans Funds	\$75
	Office of Migrant Services	\$6
	Various	\$15
	Single Family First Mortgage Lending	\$2,000
	Mixed-Income Loan Program	\$500
California Housing Finance Agency <sup>1/</sup>	Multifamily Conduit Lending	\$300
	Multifamily Lending	\$120
	Single Family Down Payment Assistance	\$113
	Special Needs Housing Program	\$20 <sup>2/</sup>
Homeless Coordinating and Financing Council	Planning and Progress Grants to Address Homelessness	\$500
Strategic Growth Council <sup>3/</sup>	Affordable Housing and Sustainable Communities	\$395
	Low Income Housing Tax Credits (State)	\$600
Tax Credit Allocation Committee	Low Income Housing Tax Credits (Federal)	\$299 <sup>4/</sup>
	Farmworker Housing Assistance Tax Credits	\$1
Department of Veterans Affairs	CalVet Farm and Home Loan Program	\$220
	CaWORKS Housing Support Program	\$95
Department of Social Services	Housing and Disability Advocacy Program	\$25
	CaWORKS Homeless Assistance Program	\$16
	CaWORKS Family Stabilization, Housing Component	\$4 <sup>5/</sup>
	Whole Person Care Pilots - Housing Investment	\$100
Department of Health Care Services	Project for Assistance in the Transition from Homelessness	\$9
	Whole Person Care Pilots Program, Health Homes Program, Mental Health Services Act Community Services and Supports, California Community Transitions Program	N/A <sup>6/</sup>
	Domestic Violence Shelters and Services	\$54
Office of Emergency Services	Domestic Violence Housing First Program	\$19
	Transitional Housing Program	\$19
	Specialized Emergency Housing	\$10
	Homeless Youth and Exploitation Program	\$1
	Youth Emergency Telephone Network	\$1
California State University	Basic Needs Funding - Student Hunger and Homelessness Programs	\$15 <sup>7/</sup>
University of California	Basic Needs Funding - Student Hunger and Homelessness Programs	\$15 <sup>7/</sup>
	HIV Care Program	\$6
Department of Public Health	Housing Opportunities for Persons with AIDS (HOPWA)	\$4
	Housing Plus Program	\$1
	Integrated Services for Mentally-Ill Parolees	\$4
California Department of Corrections and Rehabilitation	Specialized Treatment of Optimized Programming, Parolee Service Center, Day Reporting Center, Female Offender Treatment and Employment Program, Proposition 47 Grant Program	N/A <sup>6/</sup>
<b>Total</b>		<b>\$7,743</b>

<sup>1/</sup> Amounts are based on lending activities from 2018-19 trends.

<sup>2/</sup> This amount represents a voluntary allocation of Proposition 63 funds from 16 participating counties.

<sup>3/</sup> The Affordable Housing and Sustainable Communities program amount reflects 20 percent of projected Cap and Trade revenues. The Transformative Climate Communities program (\$40 million for 2019-20) funds various activities, including housing as an eligible capital component; however, the investment in housing will not be determined until awards are made.

<sup>4/</sup> This amount represents the 9 percent tax credits allocated in 2019 and an estimated figure for 4 percent credits to be awarded in 2019 based on 2016-2018 averages. This figure does not include the approximately \$4 billion of tax-exempt bond debt allocation that is available for award from the California Debt Limit Allocation Committee.

<sup>5/</sup> This amount represents an estimate of the portion of the program associated with housing and homelessness activities.

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

<sup>7/</sup> This program supports basic needs partnerships for low-income students facing housing or food insecurity.