# HOUSING AND LOCAL GOVERNMENT

Recently released population estimates from the California Department of Finance show the state added only a net 77,000 completed housing units in 2018. This is down from 85,297 units in 2017, which was down from 89,457 units in 2016. The underproduction of supply continues to define the housing crisis the state is currently facing. California is home to ten of the least affordable major markets and six of the fifteen most expensive large metropolitan rental markets in the country. Rising costs continue to strain homeowners and renters statewide and negatively impact the state's quality of life and long-term economic prosperity.

The Administration is committed to confronting the housing cost crisis. The Governor's Budget introduced a comprehensive $1.75 billion proposal to spur housing production, including planning and production grants to local governments, expansion of the state's housing tax credit program and loan program for mixed-income housing, and opportunities for innovative housing projects on excess state property.

The May Revision maintains the commitment to spur housing production, but has refocused $500 million to removing barriers to building affordable housing and adding funding to assist California renters.

## SHORT-TERM PLANNING AND PRODUCTION GRANTS AND INVESTMENTS IN INFRASTRUCTURE

The Governor's Budget included $750 million one-time General Fund to partner with local governments to increase housing production through technical assistance and general-purpose funding. Local governments would receive grants ($250 million of the $750 million) to support technical assistance and staffing to develop plans to reach higher statewide housing goals, and after reaching set milestones, funding ($500 million of the $750 million) would be available to cities and counties for general purposes.

Local jurisdictions can and must plan and zone for their fair share of housing. Local governments report that lack of funding for infrastructure, including sidewalks, lighting, site utilities, new sewer lines, broadband infrastructure, storm water drains, and street construction, is a barrier to building new housing. Constructing or improving infrastructure that supports housing projects will ultimately bring down the per-unit cost, spur housing development, and provide more affordable units for low-income and middle class Californians.

The May Revision adds school districts and county offices of education as jurisdictions eligible for a portion of the $250 million in planning and technical assistance support. In many locations across the state, teachers are priced out of the areas where they teach. School districts and county offices of education that have surplus property will have the ability to apply for these funds through their regions to develop plans for their excess properties to be used as teacher housing.

The May Revision also repurposes the $500 million from the $750 million previously dedicated to general purpose incentive payments for the Infill Infrastructure Grant Program administered by the Department of Housing and Community Development (HCD).

The Infill Infrastructure Grant Program provides gap funding for infrastructure that supports higher-density affordable and mixed-income housing in locations designated as infill. Under the augmented Infill Infrastructure Grant Program, developers and local governments can partner to apply for infrastructure funding. At the same time, certain areas designated as infill may also qualify as federal Opportunity Zones and provide additional tax benefits to investors to spur development of economically distressed communities by guiding investment toward mixed-income housing.

This investment, combined with the $300 million made available for the Infill Infrastructure Grant Program through Chapter 365, Statutes of 2017 (SB 3) bond funds, provides $800 million, significantly boosting infrastructure development and ultimately housing production. Moreover, these funds can leverage additional investment for projects located within federal Opportunity Zones through state and federal tax benefits, spurring more housing production.

The Administration is considering ways to streamline and improve processes at the state's Infrastructure and Economic Development Bank (IBank)to help fund infrastructure including projects in Opportunity Zones.

## LONG-TERM STATEWIDE HOUSING PRODUCTION STRATEGY

The Administration is committed to meeting long-term ambitious housing production goals. The Governor's Budget proposed revamping the Regional Housing Needs Assessment (RHNA) process, which determines the amount and type of housing regions and local jurisdictions must produce to meet their need. The May Revision aligns housing production targets with forthcoming RHNA goals in the short-term. In the long-term, HCD will continue to develop long-term regional housing production targets through a new RHNA process by no later than 2022.

Housing and transportation are inextricably linked. Given this nexus and to support local jurisdictions' ability to contribute to their fair share of the state's housing supply, the Governor's Budget provided that local streets and roads funds from the Road Repair and Accountability Act of 2017 (Chapter 5, Statutes of 2017) (SB 1) be distributed upon compliance with housing element law and zoning and entitling to meet updated housing goals. This linkage remains part of the housing proposal at the May Revision.

## EXPANDED STATE HOUSING TAX CREDIT PROGRAM

The Governor's Budget proposed to expand state tax credits up to $500 million in 2019-20, and up to $500 million annually thereafter upon an appropriation.
The additional authority included $500 million for a state tax credit program targeting new construction of qualified residential rental developments (for households with an average Area Median Income of 60 percent). These state credits would pair with an underutilized 4-percent federal tax credit program. Up to $200 million of newly authorized credits would be available to increase the development of mixed-income housing projects serving a broader range of incomes (between 30 to 120 percent Area Median Income) in combination with the California Housing Finance Authority's Mixed-Income Loan Program.

Currently, tax credits may be used for preservation projects which seek to retain affordable housing. Because the $500 million in tax credits proposed in the Governor's Budget applies only to new housing production, the May Revision proposes deeper subsidies for specified preservation projects through the current program. This will continue important preservation efforts of affordable housing units across the state so that they do not fall into disrepair and further decrease the state's aggregate available housing.

Additionally, developers using state tax credits may sell "certificated" credits to investors, without requiring an ownership interest in the properties being built. This has the effect of ensuring a wider investor pool. However, this ability will end in 2020. To maintain this expanded pool of investors, the May Revision proposes eliminating the sunset date.

As stated in the Governor's Budget, the expanded tax credit investment will be coupled with a future redesign of the existing tax credit programs to promote cost containment and increase the construction of new units. The May Revision proposes changing the Director of the California Housing Finance Authority and the Director of the California Department of Housing and Community Development from non-voting members of the California Tax Credit Allocation Committee to voting members to more directly include their expertise as the committee considers this redesign.

## DEMONSTRATION PROJECTS FOR HOUSING

The Governor's Budget proposed an innovation challenge for developers to build demonstration projects that use creative and streamlined approaches to building affordable and mixed-income housing on excess state property (for example, using modular construction). In January, the Governor issued Executive Order N-06-19, which directed state departments to create an inventory of all state-owned excess parcels, identify the excess parcels where housing development would be economically feasible and address regional underproduction, and issue requests for proposals for demonstration projects offering long-term ground leases to developers.

The May Revision includes $2.5 million one-time General Fund for real estate consultants for both HCD and DGS, and 4 positions and $780,000 ongoing General Fund for HCD to assist with developing request for proposals, conducting site investigations, evaluating housing developments, and monitoring projects.

## LEGAL AID FOR RENTERS AND LANDLORD-TENANT DISPUTES

The Judicial Branch's budget includes funding to provide grants to over 100 nonprofit service organizations to provide legal assistance to low-income Californians, particularly the indigent, homeless, disabled, elderly, and victims of domestic violence. These services include, but are not limited to: legal technical assistance, training, advice and consultation, and representation. Recognizing the need for stable housing among renters, the May Revision proposes an additional $20 million one-time General Fund to provide grants to nonprofit service organizations to assist specifically with landlord-tenant disputes, including legal assistance for counseling, renter education programs, and preventing evictions.