

# HOUSING

After decades of underproduction, Californians now face a staggering housing crisis—not enough supply to match need and skyrocketing housing and rental costs. Affordability issues, once confined to coastal and urban regions, are now a problem across the state. When housing costs are accounted for, California has one of the highest poverty rates in the nation. Half of all renters are rent-burdened, meaning they spend more than 30 percent of their income toward housing. Nearly a third of all renters are severely rent-burdened, spending more than half of their income toward housing. Many must make the decision to pay for housing at the expense of basic necessities like health care and food, and many are one emergency away from losing their home. A lack of affordable housing directly contributes to increased homelessness.

Ultimately, local governments are responsible for land use decisions—including planning, zoning, and permitting for housing. A lack of adequate planning for housing, lengthy local review processes, and other local decisions have created barriers to building more housing. These barriers add to already significant development costs.

To address this problem and encourage local jurisdictions to build more, the state has provided a variety of tools to local governments so they can fulfill their housing responsibilities, including legislation to streamline the development process and technical assistance for local governments to plan for needed housing. More recently, the state has provided significant funding. The state will continue to play an active role so that necessary affordable and mixed income housing is being built across the state.

## RECENT ACTIONS AND INVESTMENTS

Recent state investments include a dedicated ongoing revenue source for affordable housing through a real estate transaction fee. Estimated annual revenues from this fee are about \$289 million. Additionally, voters approved a \$4 billion housing bond pursuant to Chapter 365, Statutes of 2017 (SB 3), which will finance various existing housing programs, including infill infrastructure grants and the Multifamily Housing program, with \$1 billion to provide housing purchase assistance for veterans. And beginning in 2014, the state began investing 20 percent of Cap and Trade auction proceeds (around \$468 million in 2020-21) 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.

The 2019 Budget Act made a historic investment of \$1.75 billion in resources to support efforts to build, bolster, and accelerate housing production statewide. This included \$250 million for technical assistance and planning, \$500 million for infrastructure grants, \$500 million to finance the production and preservation of low- and moderate-income housing, and \$500 million to expand the state's housing tax credits. These investments are intended to jumpstart production as well as assist in the preservation of low and moderate income housing across the state.

To date, a portion of these investments have assisted over 12,000 new first-time home buyers. In February 2019, the first tranche of funding (\$40 million) from the new real estate transaction fee for the state's mixed income program was awarded and has closed construction financing on the development of 240 new multi-family units for seniors. An additional 1,000 units that were awarded funding are expected to begin construction in the upcoming summer. And for the first time in two decades, the large infusion of new state low-income housing tax credits will result in full utilization of federal private activity bonds.

Development fees are assessed by local governments to fund vital services, including schools, utilities and transportation. While they are a normal part of doing business, these fees are especially high in California and have contributed to the state's higher housing costs. Total development fees in California can exceed \$150,000 per unit, substantially increasing the cost of new housing. To promote the development of new housing, Chapter 530, Statutes of 2019 (AB 48) places a \$15 billion general obligation bond for school construction before the voters this spring. This bond includes provisions to promote the development of housing by bringing stability to school development fees until January 1, 2026. Specifically, the changes exempt multi-family housing

developments within one-half mile from a major transit stop from all school development fees and reduce school development fees applicable to all other multi-family housing projects by 20 percent.

The 2019 Budget Act recognized the need to create stable housing among renters and included \$20 million one-time General Fund for legal services. These services include pre-eviction and eviction legal services, counseling, and renter education. Funding for these services will help protect renters' legal rights and mitigate evictions across the state. Subsequent to the 2019 Budget Act, the state passed the strongest renter protection package in the nation. This package addresses two of the key causes of the housing crisis—price gouging and evictions. Beginning January 1, 2020, annual rent increases may not exceed five percent, plus inflation, and renters are protected from discriminatory and retaliatory evictions without cause.

Pursuant to Chapter 669, Statutes of 2019 (SB 113) and the appellate opinion in *National Asian American Coalition v. Newsom*, the Administration is exploring, with input from stakeholders, ways to establish and manage a trust to provide sustainable, ongoing legal assistance to California renters and homeowners in housing-related matters. In accordance with SB 113 and the court decision, \$331 million has been deposited into the National Mortgage Special Deposit Fund. After the funds are transferred to and managed in the trust, the trust will support local nonprofit programs to avoid preventable foreclosures by providing borrower relief and assist housing counselors or other legal aid agencies in representing renters in housing-related matters.

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## ECONOMIC DEVELOPMENT TOOLS

In addition to these investments, the 2019 Budget Act included statutory changes to make economic development tools more accessible for local governments. Changes were made to streamline the process for local governments to issue debt to finance infrastructure and facilitate housing development. This is to encourage the formation of more Enhanced Infrastructure Financing Districts, which will assist local governments by bringing in vital capital to develop necessary infrastructure and housing. Moreover, this capital can be paired with federal Opportunity Zones, leveraging even more investments for local governments.

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## INNOVATIVE AFFORDABLE HOUSING PROJECTS ON EXCESS STATE PROPERTY

As housing prices rise and affordability declines, the state, local jurisdictions, and developers must think differently and creatively. In January 2019, the Governor issued an innovation challenge inviting developers to pursue streamlined demonstration projects leading to affordable housing developments. This could include modular or manufactured construction, and other possibilities on excess state property. The Executive Order required the Department of General Services (DGS) and the Department of Housing and Community Development (HCD) to work together to produce a list of excess property suitable for these demonstration projects. As these excess parcels will not need upfront purchase capital, and are not subject to local requirements, affordable housing developers will have greater flexibility to use innovative techniques to produce units more quickly and cost-effectively than a traditional project.

The 2019 Budget Act included \$3.4 million one-time General Fund and \$782,000 ongoing General Fund to implement the Executive Order. Over three months, DGS reviewed over 44,000 parcels statewide to identify excess sites. DGS and HCD have identified approximately 100 parcels to initially focus on for low-cost, long-term ground leases for these innovative proposals.

The state is working with local governments on innovation challenge efforts. Nearly 20 cities and counties have expressed interest in partnering with the state on state parcels within their jurisdictions. The first Request for Proposals for an affordable housing project in the City of Stockton was released in September 2019 and received several responsive applications. Additionally, the state continues to actively work with the Capitol Area Development Authority on an affordable housing project within the Capitol Area Plan. The state is also about to begin procuring a developer for a parcel in South Lake Tahoe, with a Request for Qualifications expected to be released this January.

The Administration intends to continue to scale these efforts, and anticipates substantially increasing the number of solicitations for state parcels in the coming year.

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## PRIVATE INVESTMENTS

In addition to innovation challenges, the Administration continues to seek private philanthropy to continue to offset the cost of development. To date, the state has

succeeded in securing \$4.5 billion in commitments, including loans, from Apple, Google, and Facebook to finance affordable housing projects. The state will continue to pursue innovative opportunities to tap into private capital to further bolster housing production to supplement state and local efforts.

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## REVAMPING THE STATE PLANNING PROCESS FOR HOUSING

Adequate planning for housing is foundational to more housing being built across the state. The state assesses and calculates the housing needs for regions throughout California and works with local governments to develop housing elements in their general plan that will address housing demand. However, the regional housing needs allocation (RHNA) process has been woefully inadequate, allowing certain jurisdictions to negotiate their housing numbers down with little authority for the state to intervene and enforce requirements that adequate housing is permitted and built.

Recent legislative changes have provided HCD with more authority to oversee the planning process. In addition to enhanced oversight, there needs to be significant improvement to the RHNA process. The 2019 Budget Act initiated a new statewide assessment of regional housing needs. By 2023, HCD, in consultation with stakeholders, will revamp the next RHNA cycle to promote and streamline housing development. This will maximize the number of new homes for which California's cities and counties plan and zone. Importantly, the new process will provide for more ambitious goals to address California's housing crisis.

The 2019 Budget Act also provided for additional legal remedies to hold persistently non-compliant local governments accountable to their housing goals. This includes increasing fines, authorizing the State Controller to intercept funds to pay fines, and authorizing a court to appoint an agent to take actions to bring a jurisdiction into compliance. The state has taken and will continue to take an active role in supporting local jurisdictions as they come into compliance with their housing element, as demonstrated in February 2019 when the Administration met with leaders of non-compliant jurisdictions. Since that time, 16 of the initial 47 non-compliant jurisdictions have worked with HCD to become compliant. Likewise, the state will use its authority to take legal action against local jurisdictions found in consistent violation of their housing element, such as the City of Huntington Beach.

## IMPROVING STATE HOUSING PROCESSES AND PROCEDURES

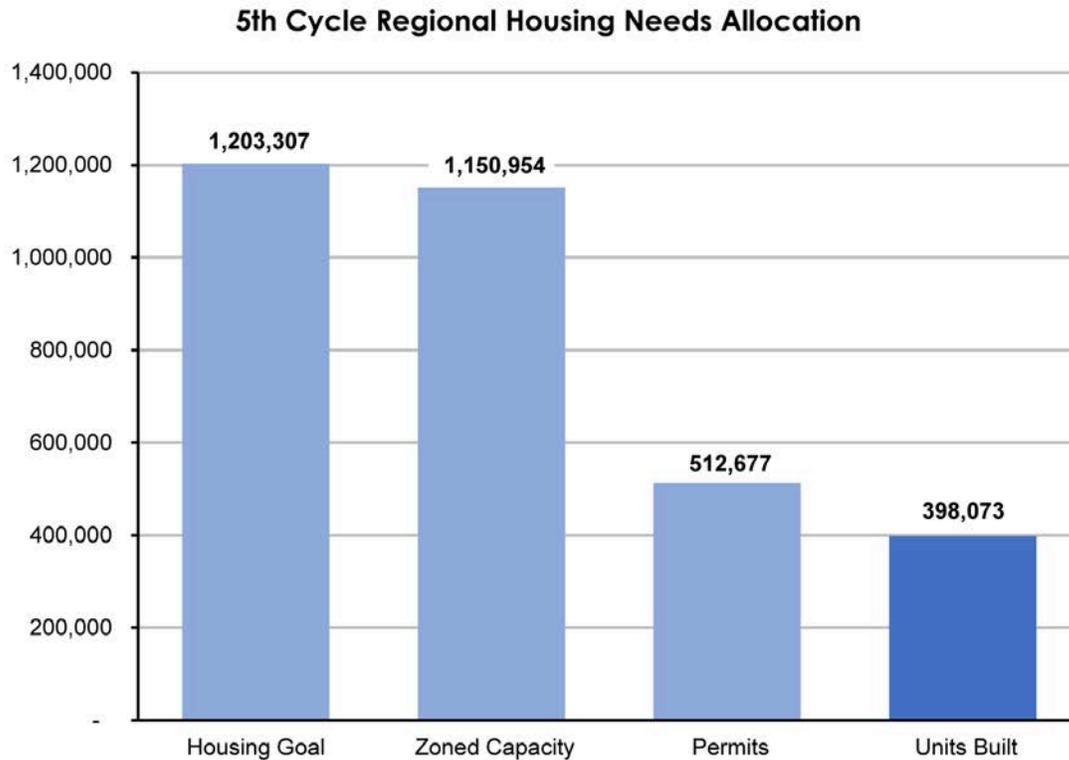
The sizable investments and important policy and legal changes made to date have paved a way for the state and local jurisdictions to address the decades-in-the-making housing crisis. Turning the tide will require a concerted commitment from the state and local jurisdictions to do more to streamline and reduce costs and to address other barriers to building. In recent years, California has passed legislation to expedite approvals for various housing projects and to increase density bonuses for affordable projects. Some local jurisdictions have enacted similar pro-housing policies, like by-right zoning and reduced impact fees. But much more must be done at both the state and local levels.

The Administration is implementing process improvements and reforms to better align its housing programs, which span multiple departments and agencies. Most recently, the state implemented a joint application process between the California Housing Finance Agency, the California Debt Limit Allocation Committee, and the California Tax Credit Allocation Committee for the administration of a mixed income housing program. The state continues to review internal processes and procedures of its housing entities to streamline housing policies, processes, and requirements in an effort to improve the coordination and disbursement of funding across government—removing potential barriers to greater housing production. This includes exploring over the next year the creation of an agency exclusively focused on housing and homelessness. It also includes using its existing authority and tools to address barriers to housing production. Lastly, it includes using excess properties for new housing, eliminating red tape, and speeding up the process to get much needed housing online.

Likewise, local jurisdictions must take action to reduce barriers and streamline processes necessary for needed housing development. Even with the significant investments in housing made by the state, to date, at an aggregate level, there is a sharp drop-off between zoning and permitting new housing units, and another drop off in the number of units constructed. According to numbers from the last RHNA cycle, local jurisdictions have permitted only 43 percent of the units needed to meet their housing needs. Furthermore, only 33 percent of needed units have actually been constructed.

This unworkable gap will likely widen in the next RHNA cycle.

The state will continue to pursue policy changes that support housing production as well as hold local jurisdictions accountable to remove barriers to more housing production in the state. The Budget includes \$10 million General Fund annually for the



next three years to support the state's efforts to increase housing production. The Administration is committed to working with the Legislature this year on additional actions to expedite housing production, including changes to local zoning and permitting processes, as well as adding predictability and reducing the costs of development fees.

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## TOTAL HOUSING INVESTMENT

Housing production and affordability remains a top priority for the Administration and a lack of affordable housing directly contributes to the homelessness epidemic seen across the state.

To address the housing crisis, the Budget builds upon its investments through a multi-pronged approach to increase housing production and help provide access to services to individuals and families with immediate needs. In total, the Budget includes \$6.8 billion across multiple departments and programs to address housing throughout the state.

**2020-21 Affordable Housing Funding**  
(Dollars in Millions)

<i>Department</i>	<i>Program</i>	<i>Amount</i>
Department of Housing and Community Development	Veterans and Affordable Housing Bond Act Programs (SB 3)	\$563.0
	No Place Like Home Program	\$400.0
	Building Homes and Jobs Fund Programs (SB 2)	\$277.0
	Federal Funds	\$68.0
	Veterans Housing and Homelessness Prevention	\$75.0
	Various	\$45.0
California Housing Finance Agency <sup>1/</sup>	Single Family First Mortgage Lending	\$2,500.0
	Multifamily Conduit Lending	\$600.0
	Multifamily Permanent Lending	\$140.0
	Mixed-Income Loan Program	\$180.0
	Innovative Fund Programs	\$60.0
	Single Family Down Payment Assistance (SB 3)	\$85.0
	Special Needs Housing Program	\$25.0 <sup>2/</sup>
Tax Credit Allocation Committee	Low Income Housing Tax Credits (Federal)	\$295.0 <sup>3/</sup>
	Low Income Housing Tax Credits (State)	\$601.0
	Farmworker Housing Assistance Tax Credits	\$1.0
Strategic Growth Council <sup>4/</sup>	Affordable Housing and Sustainable Communities	\$468.0
Department of Veterans Affairs	CalVet Farm and Home Loan Program (SB 3)	\$220.0
Office of Emergency Services	Domestic Violence Housing First Program	\$34.0
	Transitional Housing Program	\$40.0
	Specialized Emergency Housing	\$10.0
	Domestic Violence Assistance, Equality in Prevention and Services, Human Trafficking Victim Assistance, North American Domestic Violence and Sexual Assault	- <sup>5/</sup>
California Department of Corrections and Rehabilitation	Integrated Services for Mentally-Ill Parolees	\$4.0
	Specialized Treatment of Optimized Programming, Parolee Service Center, Day Reporting Center, Female Offender Treatment and Employment Program, Proposition 47 Grant Program	- <sup>5/</sup>
Department of Social Services	CalWORKS Family Stabilization, Housing Component	\$46.9
	CalWORKS Housing Support Program	\$95.0
Department of Public Health	HIV Care Program	- <sup>5/</sup>
	Housing Opportunities for Persons with AIDS (HOPWA)	\$4.0
	Housing Plus Program	\$1.0
<b>Total</b>		<b>\$6,837.9</b>

1/ Amount is based on lending activities from 2018/19.

2/ Amount represents voluntary allocations of local Proposition 63 funds from 16 participating counties.

3/ This represents the estimated 9 percent tax credits to be allocated in 2020 plus the estimated amount of 4 percent credits to be awarded in 2020.

4/ The Affordable Housing and Sustainable Communities program amount reflects 20 percent of the projected Cap and Trade revenues. The Transformative Climate Communities (TCC) program (\$47.5 million in carryover available for 2020-21) funds various activities, including affordable housing.

5/ The State provides a number of wrap-around supportive services through these programs including housing, which cannot be separated from the program's overall budget.