Assembly Committee on Housing and Community Development
Informational Hearing
Wednesday, January 25, 2006
9:00 a.m., Room 126

Should Housing Be Included in a Statewide Infrastructure Bond?

Briefing Paper

Introduction

Government Code Section 65580 declares: *The availability of housing is of vital statewide importance, and the early attainment of decent housing and a suitable living environment for every Californian, including farm-workers, is a priority of the highest order.*

Although recent indications are that California's double digit appreciation in property values seems to be slowing, the persistent and massive lack of affordable housing continues.

According to the California Association of Realtors (CAR), the percentage of households in California able to afford a median-priced home stood at 14 percent in November, compared with 19 percent for the same period a year ago. The minimum household income needed to purchase a median-priced home at $548,400 in California in November 2005 was $133,390.

Seemingly incongruous to those figures are the statistics from the Construction Industry Research Board (CIRB) indicating a surge in new home construction. In the 2000 Statewide Housing Plan, the California Department of Housing and Community Development (HCD) determined that to meet the housing demand approximately 220,000 new housing units ought to be constructed annually. CIRB statistics indicate 211,300 new units were built in 2005 down from 212,960 in 2004 and 2006 forecast at 198,000. New construction has steadily increased since 2000 when only 148,540 units were constructed but are not near 314,569 units built in 1986.

The impact of high housing costs affects all economic sectors, but what the CAR's data illustrates is the severe impact on lower income households. According to the California Budget Project, while renters face the greatest affordability challenges, increased housing costs have pushed homeownership out of reach for many families. As the cost of housing rises, many families and individuals can only afford to live in overcrowded or substandard housing. Other families struggle to leave welfare for work, and households across a broad array of age groups and ethnic and racial backgrounds face significant cost burdens.

Proposition 46

In 2000, with the state General Fund flush with unexpected revenue, the Legislature elected to appropriate $500 million for housing programs. By 2001, due largely to a dramatic drop in stock prices, the Governor and Legislature were forced to make cuts rather than increase state program funding.

By 2002 funds appropriated to low-income housing programs in 2000 were exhausted. To assure affordable housing programs continued to receive funding, the Legislature approved, with a bi-partisan 2/3 vote later approved by voters statewide, an unprecedented $2.1 billion housing bond. It was the largest housing bond in the history of the state.

Specific programs and amounts were approved according to the following schedule:

1) Multifamily Housing Program: $910 million

   Provided loans to local governments, non-profit and for-profit developers, for rehabilitation and new construction of affordable multifamily rental housing, the preservation of existing subsidized housing that may convert to market rents.

   This provision included the following set asides:

   a) $50 million for preservation,

   b) $20 million for supportive services,

   c) $25 million for local housing trust funds for individuals and families with low- and very-low income, and

   d) $15 million for low income University of California and California State University student housing requiring the university to provide a dollar for dollar match. Provides that any funds not used for this purpose within 24 months shall be used for the Downtown Rebound Program.

2) Emergency Housing Assistance Program (EHAP): $195 million

   Provided grants to counties and nonprofit entities to finance emergency shelters for homeless individuals and families. Funds may be used for rehabilitation, renovation, expansion of existing facilities, site acquisition, equipment purchase, vouchers, and operating costs.

3) Supportive Housing: $195 million

   Provided loans for housing projects for individuals and households moving from shelters or transitional housing or those at risk of homelessness.

4) Farmworker Housing Grant Program: $200 million

   Provided grants to local public agencies, nonprofit corporations, and federally recognized Indian tribes to provide housing for agricultural workers. Grants were used for rehabilitation or new construction of owner-occupied housing, and construction and rehabilitation of rental units.

   Included the following set asides:

   a) $25 million for migrant farmworker housing, and

   b) $20 million for developments that provide health services.

5) CalHome Program: $205 million

   Provided funds for homeownership programs to assist low- and very low-income households become or remain homeowners. Funds were allocated in either grants to programs that assist individuals or loans that assist multiunit homeownership projects. Grant funds were used for first time homebuyer downpayment assistance, home rehabilitation, homebuyer counseling, home acquisition and rehabilitation, or self-help mortgage assistance programs, or for technical assistance for self-help and shared housing homeownership. Loan funds were used for purchase of real property, site development, predevelopment, and construction period expenses incurred on homeownership development projects, and permanent financing for mutual housing or cooperative developments.

   This provision included the following set asides:

   a) $75 million for the Building Equity and Growth in Neighborhoods Program,

   b) $5 million for exterior modifications for low-income disabled renters, and

   c) $10 million for self-help housing construction management.

6) Code Enforcement Program: $5 million

   Funds were used for capital expenditures in support of local code enforcement and compliance programs.

7) California Homebuyer Downpayment Assistance Program: $290 million

   Administered by Cal HFA, the Homebuyers Downpayment Assistance Program helped first-time homebuyers achieve homeownership by providing "silent" second-mortgage loans to reduce the principal and interest payments on a first mortgage. Buyers generally access these loan funds through their lender.

This provision included the following set asides:

a) $50 million for the School Facility Fee Affordable Housing Program,

b) $85 million for the California Housing Loan Insurance Fund,

c) $25 million for Teacher Downpayment assistance – for teachers that work in low performing schools. Provided that after 18 months, if funds were not fully utilized, these funds may be made available for the general purposes of the California Homebuyer Downpayment Assistance, and

d) $12.5 million for downpayment assistance to low-income first time homebuyers who have received homeownership counseling and purchase in a community revitalization area.

8) Jobs Housing Improvement Account: $100 million

Established capital grants to local governments that increased housing.

2006 Proposals

1) AB 1783 (Nunez): On January 4, 2006 the Speaker introduced AB 1783, the California Infrastructure Improvement, Smart Growth, Economic Reinvestment, and Emergency Preparedness Financing Act of 2006. Currently AB 1783 states the intent of the Legislature to provide for the financing of state and local government infrastructure through various funding sources, including bonds, fees, assessments, and other sources. The financing would be used to fund purposes such as transportation, flood control, safe water systems, environmental improvements, housing, hospital seismic safety repair and emergency public safety communications equipment, among others.

   AB 1783 specifically states that it is the intent of the Legislature that new infrastructure includes increasing the supply of affordable housing, encouraging homeownership, and reducing homelessness.

2) SB 1024 (Perata): Authorizes the sale of $10.275 billion in general obligation bonds for a number of capital improvement projects throughout the state, including transportation facilities, clean air, high speed rail, urban infill development, environmental enhancement, goods movement and port security, affordable housing incentives, levee protection, and the repayment of Proposition 42 loans, upon voter approval at a statewide general election.

   Relative to housing, SB 1024 provides the following:

   a) Affordable housing incentives: $425 million in grants for neighborhood street and road improvements to cities and counties meeting at least 80 percent of their annualized overall housing needs and 30 percent of their annualized very low, low and moderate income housing needs are eligible for incentive transportation funding grants.

   b) Regional Housing and Community Growth: $975 million for grants and loans to local agencies for producing urban infill development, enhancing regional land use planning, funding habitat and open space conservation to mitigate growth impacts, affordable housing development and related uses.

Policy Issues/Questions

As stated in the introduction, despite some indications of a cooling real estate market and recent increases in new unit production, the median price of a new home remains out of reach for many if not most Californians.

The question for the Legislature to consider is whether or not housing programs administered by HCD and Cal HFA ought to be financed by another statewide bond issuance.

Most of the programs financed by Proposition 46 (see Proposition 46 summary above) will be exhausted of funds by the end of 2006 with a few remaining funded until 2007.

The question arises: What should the state do when Proposition 46 funds run out?

There seem to be four choices:

1) Do nothing. If funds run out, the state could simply make a policy decision not to continue to subsidize housing programs. It has been argued that even at $2.1 billion the number of units produced only amounts to a small fraction of the need. On the other hand even if the whole need is not served at least some needy Californians (HCD estimates approximately 70,000 new units) are benefiting from these programs.

   If the state were to opt out of subsidizing affordable housing would there be something to fill the breach? Some argue such a role ought to be left to churches, non-profits and/or local governments.

2) General Fund. Funds could be appropriated from the General Fund to existing housing programs. In 2000 the Legislature, with bi-partisan support, appropriated $500 million from the General Fund to housing programs. In that year the General Fund was flush with a surplus. Although there are indications this year that there may be higher than expected revenues, there will be much debate and competition over how to handle excess revenue.

3) New Source of Revenue. Given that it is not likely that General Fund revenues will be available, the committee may wish to consider creating a new source of revenue dedicated to housing. Several options exist, one with a nexus to the high cost of housing would be to impose a nominal fee on transfers of real property. As the California Realtors Association figures indicate, the median cost of a home in California is over $548,000. If the state were to impose a fee of $200 or $300 per transfer, the impact on any individual transaction would be inconsequential while generating significant revenue to fund subsidized housing programs.

4) Bond Finance. If the legislature opts for option four that is to issue another bond and voters approve another bond two questions arise: 1) at what amount? and ; 2) what should happen after proceeds of that bond are exhausted?

   Given the amount of the last bond was $2.1 billion which funded programs over four years, should the next bond be the same amount or less? As land, material and labor costs have increased since 2002, $2.1 billion may not last as long or build as much. SB 1024 (Perata) sets aside $1.4 billion for housing programs. The committee may wish to consider whether that is an appropriate amount. The committee may wish to inquire what period of time $1.4 billion would cover.

   The committee may also wish to consider costs to prepay the debt with interest on $2.1 billion as well as new and future bonds. The Legislature will need to consider whether bond finance should be the established mechanism to fund housing programs.

   SB 1024, as noted above, offers proceeds of a bond in a different fashion than previous bonds. Rather than direct appropriations to subsidize construction of new affordable housing units, SB 1024 offers funds to local agencies as "incentive grants" when local governments perform in a certain way which the Legislature deems laudable.

As noted, $425 million may be granted for road construction if local governments approve at least 80 percent of their overall housing need and at least 30 percent of very low-, low- and moderate-income housing need. The committee may wish to consider whether those percentages are attainable. Local governments argue that they don't build housing and that they still rely on developers (for-profit and non-profit) to propose projects. Will communities be able to qualify for grants under this scenario even if they zone adequate land and otherwise create conditions attractive to developers?

SB 1024 also provides $975 million for grants and loans to local agencies for producing more infill development, engaging in regional planning and conservation measures. The policy question for the Legislature to consider is whether funds ought to be directly appropriated to housing programs as in Proposition 46 or whether certain criteria, such as regional planning, should be part of an allocation formula.

Conclusion

The committee may wish to pursue a line of inquiry of the various panelists as to what would happen under any of the scenarios articulated above and what if any alternatives exist.