

Budget and Policy Post

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The 2018-19 Budget**Administration of the 2017 Housing Package****Background**

Housing Package. In 2017, the Legislature passed a package of bills aimed at addressing the high cost of housing in California. This package included two new funding sources for construction and rehabilitation of below market rate housing, as well as changes intended to streamline local approvals of new housing and encourage cities and counties to plan for and approve more housing.

New Charge on Real Estate Documents. Chapter 362 of 2017 (SB 2, Atkins) created a \$75 charge on certain real estate documents, up to \$225 per single transaction. The administration projects the new charge will raise \$258 million per year. In 2018-19, proceeds from the charge will be split evenly between (1) grants to cities and counties to update land use planning documents and (2) assistance to homeless individuals and families. Beginning in 2019-20, most of the proceeds will go to cities and counties to fund affordable rental and ownership housing for low- and middle-income households. Smaller shares also will be allocated for farmworker housing and incentive grants to encourage cities and counties to plan for and approve additional housing.

Housing Bond. Chapter 365 of 2017 (SB 3, Beall) places a \$4 billion general obligation bond on the November 2018 ballot. Should voters approve the bond, \$1.5 billion of the funds will go to low-income multifamily housing, \$1 billion to veterans' housing assistance, and the remainder divided amongst various programs to fund a variety of housing and related infrastructure.

Other Recent Funding Initiatives. In 2016, the Legislature established the \$2 billion No Place Like Home program to construct and rehabilitate permanent supportive housing for those with mental illness who are homeless. The program authorizes the issuance of bonds backed by personal income tax revenues raised under the Mental Health Services Act (Proposition 63 of 2004). Before these bonds can be issued, the state must complete a validation process whereby the courts determine whether issuance of the bonds is legal. The validation action is pending.

Proposal

Staff and Resources for HCD. To administer the housing package, the administration proposes \$16 million and 81 staff at the California Department of Housing and Community Development (HCD) in 2018-19. These resources would grow to \$21 million and 128 staff in 2019-20 and \$23 million and 146 staff in out years. The administration also requests authority to distribute \$522 million from the new funding sources for grants and assistance in 2018-19, increasing to \$773 million per year in the out years.

Implementation of SB 2. Senate Bill 2 directs portions of its new funding to particular purposes without detailing a particular program through which the funds should be delivered. Specifically-under the administration's estimates-about \$130 million will be available for homelessness assistance in 2018-19. In addition, about \$25 million will be available for farmworker housing and about \$13 million for incentive grants for cities and counties each year beginning in 2019-20. The administration intends to develop particular programs to distribute these funds via a stakeholder process over the next year.

LAO Comments

Staffing Requests for 2018-19 Seem Reasonable. The staff and resources requested by HCD for 2018-19 seem reasonable given their increase in workload to administer the housing package. Their request is in line with the administrative cost estimates presented in the bill analyses for the various

elements of the housing package. In addition, the portion of their request intended to begin implementation of the SB 3 bond (38 staff) is in line with HCD's past request of 45 staff for the first year of implementation of Proposition 1C-a similar housing bond approved by the state's voters in 2006.

Weighing in on Homelessness Funding. The Legislature could consider providing additional direction to the administration on the distribution of SB 2 homelessness funding. For example, it could weigh in on the types of assistance to prioritize and the timeframe for distributing the funding. The funding could be allocated for a variety of purposes, such as supportive housing, shelters, rent assistance, and housing search services. Each type of assistance has pros and cons. Building supportive housing provides a more substantial and longer-term benefit, but assists a smaller number of people—at least in the near term. This is because building an apartment typically takes more time and has higher upfront costs than helping pay rent for an existing apartment or providing shelter services. Rental assistance or shelter services typically can be distributed more quickly and to a larger population, but often are more of a temporary solution. Building supportive housing helps increase the state's overall housing stock, lessening the state's chronic housing shortage. This is not true of other types of assistance.

Another consideration is when No Place Like Home funding will become available. If the validation action is resolved favorably this year, significant funding would open up for building supportive housing. In this case, the Legislature may want to give more consideration to funding other types of assistance. If resolution is unfavorable or delayed, however, the Legislature may want to lean toward allocating more of the SB 2 funding for construction.

Uncertainty About SB 2 Revenue. The administration assumes that SB 2 will raise \$258 million per year beginning in 2018-19. While the basis of the administration's estimate generally is reasonable, their estimate nonetheless is subject to uncertainty. Their methodology is unable to account for SB 2's \$225 limit for charges for a single transaction. The extent to which this limit could dampen revenues is unclear. In addition, the number of real estate documents recorded in any year—and, in turn, the amount of SB 2 revenue raised—depends on how much building, lending, and other economic activity is occurring in California. These activities are inherently difficult to predict. As a result, SB 2 revenue is difficult to predict with accuracy. This difficulty is compounded by the fact that SB 2 creates a new fee. There is no historical data on revenue collection from such a fee that can be used to make projections.

Consider Deferring Approval of Spending for 2019-20 and Beyond. Several factors that are important for the Legislature's consideration of the administration's proposal are unclear and are likely to remain so until after the deadline to pass the 2018-19 budget. These factors include (1) the outcome of HCD's stakeholder processes to guide the use of SB 2 funds; (2) what level of funding will be raised from SB 2; (3) how much and how quickly demand will materialize for SB 2 programs (such as land use planning grants, incentive grants, and homelessness funds); and (4) whether or not voters will approve SB 3. Given these uncertainties, the Legislature could consider approving the \$16 million and 81 staff for state operations requested for 2018-19, but defer to the 2019-20 budget process its decision on additional staffing augmentations for 2019-20 and 2020-21. Doing so, would allow the Legislature to check back in with HCD regarding its progress on implementation of the housing package.