



**Testimony of Douglas Shoemaker
President, Mercy Housing California**

**Before the Assembly Joint Committee on
Local Government and Housing and Community Development
Sacramento, CA
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On behalf of Mercy Housing, I want to thank Committee Chairs Norma Torres and Cameron Smyth, and the other members of the Assembly for taking the initiative to hold this hearing to discuss potential new tools to create and preserve affordable housing. With the dissolution of redevelopment agencies and the ongoing economic difficulties facing California, it is critical that the State take decisive steps to re-establish its role in helping to ensure well-functioning housing markets. This is particularly important relative to lower-income Californians, who lack decent, safe and affordable homes in most housing markets in the state. In fact, California has the dubious distinction of having five of the top ten least affordable metropolitan areas in the country.¹

This hearing comes at a critical time, as the dissolution of redevelopment agencies has resulted in the loss of over \$1 billion per year in affordable housing funding. The loss of redevelopment funding is exacerbated by the cuts in federal spending for affordable housing production. Funding to California for the HOME program, which is HUD's largest housing production program, has already declined by 50% since 2010.² In addition, State funding for key services like adult day health, child care, and in-home support services are also shrinking dramatically--putting further economic pressure on fixed income seniors, lower-income families and individuals.

In developing Mercy Housing's recommendations, we have worked closely with affordable housing industry partners including Housing California, the California Housing Consortium, the California Housing Partnership Corporation, the Non-Profit Housing Association of Northern California, the California Coalition for Rural Housing, and the Southern California Association of Non-Profit Housing. We strongly believe that a collaborative approach to housing policy is essential as we work to find new tools that will address the diverse markets in our state.

Background on Mercy Housing

¹ According to HUD's Second Quarter of 2011 data, the San Francisco, Santa Ana-Anaheim-Irvine, Los Angeles, San Jose, Santa Cruz, and San Luis Obispo MSAs are all in the top ten nationally and the San Diego MSA is the 11th most expensive.

² HOME Funding to California in Federal Fiscal Year 2010 was \$262.9 million which has declined to \$130 million in FFY 2012 and will decline to \$118.6 million in FFY 2013 (Source: California Housing Partnership Corporation).

Mercy Housing, Inc. is a national not-for-profit organization founded in 1981 whose mission is to create stable, vibrant and healthy communities by developing, financing and operating affordable, program-enriched housing for families, seniors and people with special needs who lack the economic resources to access quality, safe housing opportunities. Beyond providing safe, quality housing, we offer resident programs at our rental properties to address residents' needs in education, health and wellness, economic development, and community development. Through affordable housing and supportive programs we help people improve their economic status, transform neighborhoods and stabilize lives.

Today, Mercy Housing is active in 43 states through development, lending and property management operations. We have developed over 40,500 affordable homes, touching the lives of more than 137,800 people on any given day. Mercy Housing serves families, seniors, and people with special needs at or below 50 percent of the area median income, with the current median annual income for resident families at approximately \$18,720. We have a particular focus in California, where we have developed 10,942 affordable homes in 36 counties state-wide over the last twenty years.

In addition to development, Mercy Housing is active in creating solutions to the foreclosure crisis. Mercy Portfolio Services (MPS), a subsidiary of Mercy Housing, was formed in 2008. MPS was the driving force in the creation of the Mortgage Resolution Fund, which helps communities, businesses and homeowners turn foreclosed, vacant properties into occupied homes that are assets to the community.

Is there a need for State investment in affordable housing?

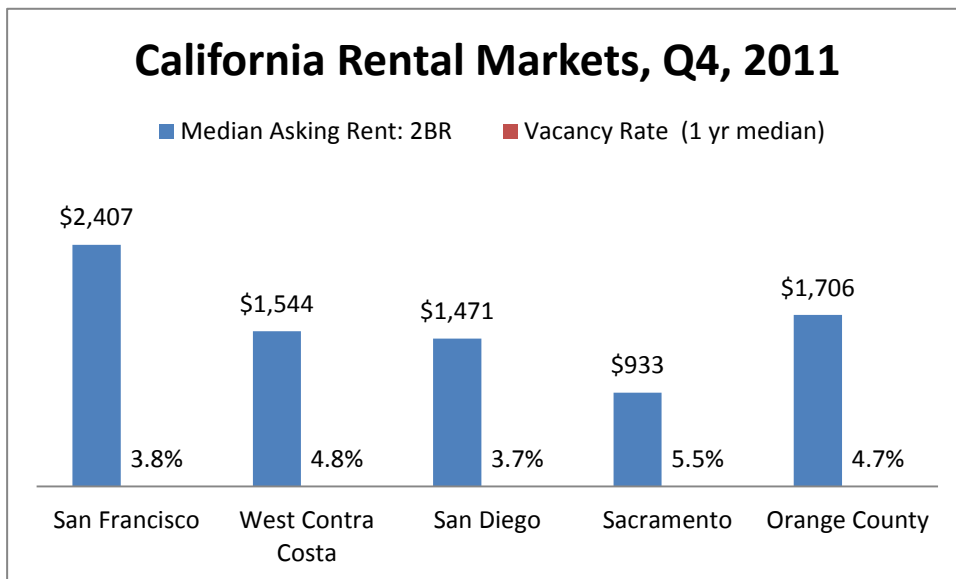
California finds itself in a pivotal moment as a result of three related challenges: the collapse of housing markets across the state, the ongoing recession, and budget shortfalls at every level of government. In light of these challenges, it seems appropriate that the Governor and Legislature ask some basic questions about the State government's role in affordable housing.

Should the State resume its role of providing tools to address market failures relative to affordable housing? Is affordable housing production a "luxury" that the State of California can no longer afford to support? What would be the consequences if the State truly abandoned its funding role and left this issue to the private sector or other levels of government?

While some point to the drop in home values and the sheer quantity of homes in foreclosure as signs that we don't need to produce more affordable housing, the reality is quite different. Analysis by the National Low Income Housing Coalition demonstrates conclusively that low-income households lack affordable housing in nearly every corner of California.³ This conclusion is supported by groups across the political spectrum such as the national Association of Home Builders. The affordability crisis is particularly acute for seniors on social security and families that earn less than \$25,000 per year.

³ Out of Reach, National Low Income Housing Coalition, 2011.

Consider recent data on rents:



Source: REIS, Inc., 2012

Finally it is worth noting that the buying power of low and moderate income households has shrunk faster than the decline in home prices. It is worth noting that California now has a statewide poverty rate of 16.3%.⁴ But the challenge extends to the middle class as well. More than 50% of renter households and homeowner households in California are considered cost-burdened, meaning they pay more than 30% of their income to housing.⁵

Exacerbating the declining incomes is anemic housing production as a result of the economic downturn and drop in housing prices. While one or two markets show some signs of life, there has been a general lack of new rental housing production in nearly every market in the state. As a result of multiple years of extremely low production, vacancy rates are below 5% in most major markets. While rental price escalation has not yet hit extremes, we are witnessing double digit price escalation in many markets due to declining supply. While there are many single family homes being rented out by banks and investors, there are also thousands of former homeowners are now seeking rental housing.

Given this context, it is incredibly clear that we need the State to re-establish its role in addressing shortcomings in the housing markets in California. Should the State fail to act in a timely fashion, we face social and economic consequences that far outweigh any budgetary savings that the Legislature can see today. On any given night in California, approximately 130,000 individuals are homeless. In

⁴ "Falling Behind: the Impact of the Great Recession and the Budget Crisis on California's Women and their families," California Budget Project, January 2012.

⁵ "California Roller Coaster: Income and housing in boom and bust, 1990-2010," Dowell Myers et al, April 2011.

the course of a year, approximately 390,000 individuals experience homelessness.⁶ We know from experience that in the absence of affordable housing, we witness not just increases in homelessness, but overcrowding, hunger and food insecurity, parents working multiple jobs, and multi-hour commutes, to name just a few of the consequences.

What should be the State's role in affordable housing?

I am not here to request that the State simply replicate its previous housing strategies. While we may need some more focused tools, we can't lose sight of the fact that we still need California to invest in the production and preservation of affordable housing. I am not alone in suggesting that this approach should be more strategic than the past approach to redevelopment tax-increment funds. As others have suggested, we need to be clear about our goals before we throw money at programs.

To that end, I would suggest that the State has at least four compelling interests relative to the production and preservation of affordable housing:

- 1) To ensure that metropolitan and rural housing markets provide safe, decent, and affordable housing options for low and moderate income families in communities with high quality opportunities for jobs and education;
- 2) To ensure that fixed-income seniors have independent housing options in their own communities in order to avoid the social, health and financial consequences of being displaced from their support networks as they age.
- 3) To providing affordable homes in close proximity to jobs and services to help accomplish greenhouse gas reduction; and
- 4) To address the housing and health needs of the tens of thousands of homeless individuals and families in our state.

What tools can help address these challenges?

1. **Passage of a State Housing Trust Fund** should be the statewide platform for affordable housing production and preservation. Ideally the funding for the Trust Fund would replace not just the lost redevelopment tax increment for housing, but eliminate the need for periodic General Obligation bonds, like Proposition 46 and Proposition 1C. Towards that end, SB 1220 (DeSaulnier/ Steinberg/ Atkins) has been introduced in the Senate and it deserves your support. It would produce approximately \$700 million per year through real estate document recording

⁶ "Fact Sheet: Finding an Affordable Place to Live in California," Housing California, January 12, 2011. The fact sheet cites HUD's annual homeless count from January 2009.

fees. While there is always controversy about new fees, the consequences of inaction should outweigh these concerns.

2. **Dedicated revenue from Air Pollution Control Fund** for transit-oriented affordable housing. Using Cap-and-Trade fees would be a phenomenal source of leverage for the State to ensure that affordable housing production occur in the right location at the right scale to support transit, walking and biking to jobs, schools, and local services. According to the California Air Resources Board, the transportation and land-use sector is responsible for more than 40% of GHG emissions in the state (mostly motor vehicles). AB 1532 from Speaker Perez would define how the State should use new revenues created by the “cap and trade” permit fees for greenhouse gas emissions. Ideally the State would dedicate some of these funds to expand transit and create more affordable homes in the right locations.
3. **Spend our health care dollars to provide lower cost community-based housing solutions for high users of medical services.** We face a huge demographic shift in our country—the so-called “silver tsunami” in which the senior population is projected to grow from 40 million people to 54.6 million nationally by 2020. In order to deal with the costs of caring for seniors, we need to bend the cost curve away from current spending trends. In communities all over the state, seniors are stuck without low-cost community-based housing options because Medicare and MediCal currently do not pay for cost-effective housing alternatives to hospitalization or skilled nursing facilities. It costs Mercy Housing approximately \$700-900 per month to provide a home to a senior that would otherwise cost \$1000 or more per night to stay in a hospital bed or \$4000 per month in assisted living.

Fortunately, the State and private sector have the incredible benefit of flexibility at this moment in time. The health care world is in tremendous flux, particularly as millions of MediCal beneficiaries are being migrated to managed care. A system of capitated payments to health plans provides us with an ideal framework for rethinking how we spend health care funding. We are working with the State agencies to see if we can address this through the “Dual Eligible Pilot Program” that is looking to create cost-effective solutions for seniors and other individuals on Medicare and Medicaid.

4. **Make innovative use of TARP funds to address the foreclosure crisis.** Efforts like the Mortgage Resolution Fund are using TARP “hardest hit” funds to purchase and “right size” mortgages for existing homeowners. These efforts are cost-effective for lenders because they are much less expensive than foreclosing on properties and incredibly important for homeowners because it provides them with an opportunity to stay in their home, preserve their credit, and ultimately get a mortgage that they can afford for the long-term. We hope that the State will look hard at using their TARP dollars for this effort.

In closing, I want to thank the Assembly Housing Committee, particularly Chair Norma Torres, for this opportunity. You have taken on a topic that urgently needs your attention and on behalf of millions of Californians in need of affordable homes, we hope that you will be successful in your efforts to provide new tools to make the future better than the last several decades. Thank you.