

Assembly Committee on Housing and
Community Development

Informational Hearing

Implementation of Proposition 1C: Statewide Housing Bond

Wednesday, March 28, 2007

9 a.m. – 1 p.m.

State Capitol, Room 126

Introduction

The severe shortage of affordable housing in the State of California is well documented. According to the California Department of Housing and Community Development (HCD), approximately 220,000 new housing units need to be produced every year to keep up with the demands of statewide annual population increases. For more than a decade, production has fallen well short of that figure. Therefore, in addition to yearly shortages, overall housing supply is in a significant deficit. Since 2000, average statewide rents and home prices have more than doubled. What is causing the lack of affordability?

Some argue that price increases are directly related to an inhospitable regulatory climate in California; that environmental and other land-use regulations are a large culprit in driving up housing costs. Policy makers may wish to consider that in 1986, according to the Construction Industry Research Board, new housing production was at 314,569 units. Ten years later, 1996 saw only 94,283 new units developed. By 2004, builders developed almost 213,000, while 2007 is forecast at producing only 158,400 units. Why the large fluctuation in units developed? During the intervening 20 years, there have not been any dramatic changes to the California Environmental Quality Act nor to other state or local land use regulations.

During the past seven years, variables like job growth and population have shown consistent and steady growth. Despite a significant decline in high tech stock prices in 2000, State officials indicate that California's economy for the last several years including 2007 continues to be strong. Why are housing prices falling in 2007?

The argument has been made year after year that the run up in home prices and rent is simply basic economics, i.e., not enough supply and too much demand. Some have argued: just allow the market to provide the supply and prices will fall.

Members may wish to consider the following: If large parcels of land were suddenly made available for home construction, due to land-use deregulation, would private homebuilders actually provide a large enough supply to bring prices down? Why have prices lowered this year when population increases continue and the California economy is otherwise strong?

Members may wish to consider whether home builders have an interest in maintaining a certain level of demand in order to keep prices at certain levels. Given that it is unlikely that developers will produce an oversupply, how does the lower-income market get met?

If the free market has a self interest in protecting prices by not over producing, how then do we accomplish affordability for lower-income Californians? The Committee may wish to consider whether or not the only way affordable housing will ever be developed for lower-income working Californians through public subsidy?

Recent History of California Housing Bonds

In 2002, California voters approved Proposition 46, the \$2.1 billion Housing and Emergency Shelter Trust Fund Act. Proposition 46 provided funding for the following programs: Multifamily Housing Program; Emergency Housing Assistance Program; Supportive Housing; Farmworker Housing Grant Program; CalHome Program; Local Housing Trusts; Code Enforcement Program; California Homebuyer Downpayment Assistance Program; and Jobs Housing Improvement Account.

Funds provided under Proposition 46 were for the most part exhausted at the end of 2006.

In November 2006, California voters approved Proposition 1C, the Housing and Emergency Trust Fund Act of 2006. Proposition 1C maintains funding provided under Proposition 46 for most, but not all, of the programs noted above. Additionally, as will be discussed in greater detail and is the focus of the hearing, Proposition 1C establishes funding mechanisms for infrastructure related to housing development.

It is interesting to note that the level of voter support was nearly identical in 2006 as it was in 2002. Statewide, voters supported both bonds with 58 percent of the vote. So it seems that a healthy majority of Californians support public investment in affordable housing.

Prior to 2002, the last statewide housing bond was Proposition 107 in 1990 which authorized \$150 million in bond funds.

Proposition 1C Summary

Proposition 1C includes new incentives to build affordable housing on infill parcels as well as near public transit stations. The Legislature recognizes that one of California's greatest assets is its open space which includes valuable agricultural land. Proposition 1C seeks to protect open space by encouraging new development to occur in already developed areas and in close proximity to public transportation.

As the Legislative Analyst points out in her summary, Proposition 1C allocates \$2.85 billion to 13 housing and development programs. A little more than one-half of the funds (about \$1.5 billion) is subject to legislative appropriation. This includes funds designated for three new development programs. All other programs in Proposition 1C are continuously appropriated consistent with Proposition 46 allocations.

Proposition 1C provides the following:

- 1) Creates the Emergency Housing, Community Planning and Farmland Preservation Bond Act of 2006 within the State Treasury.
- 2) Provides that funds shall be allocated in the following manner:
 - a) \$1.5 billion to the Affordable Housing Account to be appropriated according to the following schedule:
 - i) \$345 million for the Multifamily Housing Program which provides rental housing for low-income households, an existing program administered by HCD;
 - ii) \$50 million for emergency housing assistance, an existing program administered by HCD;
 - iii) \$50 million for housing for homeless youth, an existing program administered by HCD;
 - iv) \$195 million for supportive housing for individuals and households moving from emergency shelters or transitional housing or those at risk of homelessness, an existing program administered by HCD;
 - v) \$135 million for farmworker housing, an existing program administered by HCD;
 - vi) \$300 million for CalHome homeownership, an existing program administered by HCD. Requires \$10 million to be expended for construction management under the California Self-Help Housing Program;
 - vii) \$200 million for the California Homebuyer's Downpayment Assistance Program (CHDAP), an existing program administered by the California Housing Finance Agency (CalHFA);
 - viii) \$125 million for the Building Equity and Growth in Neighborhoods (BEGIN) Program, an existing program administered by HCD.
 - ix) \$100 million for the newly created Affordable Housing Innovation intended to be expended for competitive grants or loans to entities that develop, own, lend, or invest in affordable housing and used to create pilot programs that demonstrate innovative and cost-saving approaches to creating or preserving affordable housing, to be administered by HCD;

- b) \$850 million to the Regional Planning, Housing, and Infill Incentive Account (a new program) to be used, upon appropriation by the Legislature, for the following purposes:
 - i) Incentive grants related to infill development which may include:
 - (1) Not more than \$200 million for urban parks;
 - (2) Water, sewer, or other infrastructure associated with infill;
 - (3) Transportation improvements; or,
 - (4) Traffic mitigation.
 - ii) Brownfield cleanup that promotes infill.
- c) \$300 million for the Transit-Oriented Development Implementation Program (a new program) to be administered by HCD according to the following:
 - i) Grants to local governments, including transit agencies, for infrastructure necessary for the development of higher density uses within close proximity to a transit station; and,
 - ii) Loans for the development and construction of housing in close proximity (1/4 mile) to a transit station. Requires 15 percent of the housing units to be affordable to very low- or low-income households and to remain affordable for at least 55 years.
- d) \$200 million to the Housing Urban-Suburban-and-Rural Parks Account (a new program) for appropriation by the Legislature for housing-related parks in urban, suburban, and rural areas subject to conditions and criteria that the Legislature may provide.

For Legislative Consideration

Three programs created by Proposition 1C do not provide any specific directions regarding funding eligibility and criteria to be used to evaluate project funding applications. Those programs are: 1) Affordable Housing Innovation; 2) Regional Planning and Housing and Infill Incentive; and 3) Housing Urban-Suburban-and-Rural Parks.

In addition, although Proposition 1C does provide direction for funding the Transit-Oriented Development Implementation Program, no policy committee has ever reviewed this proposal. Members of the Committee may wish to review and consider changes to this program.

What follows are the four programs created under Proposition 1C to be considered by the 2007-08 Legislature, with brief summaries of proposals for implementation, presented to committee staff, as of the hearing date.

1) Affordable Housing Innovation (\$100 million) implementation proposals:

1a) Sponsor: HCD

Program: Construction Liability Insurance Reform Pilot Program

Seeks to fund a predevelopment program for best practices for State sponsored housing programs at HCD and CalHFA, which would include video recording of construction, development of quality control manuals, and additional quality control inspections.

1b) Sponsor: HCD

Program: Green Building, Energy Efficiency and Universal Design Program

Seeks to fund grants to finance a portion of the costs of incorporating additional energy efficiency, green building, and universal design accessibility features in projects funded by HCD or CalHFA.

1c) Sponsor: HCD

Program: Affordable Housing for Teachers and School Employees

Seeks to establish a pilot program for predevelopment costs to develop planning models for redeveloping school sites more efficiently to house teachers and school employees. Would use one or two school districts as a pilot program that includes local authorities and the State Architect which would provide housing for school district employees as a means to recruit and retain teachers and other school personnel.

1d) Sponsor: California Housing Partnership Corporation

Program: Top Loss Acquisition Guaranty Fund

This proposal would use \$50 million from the Innovation Find to leverage at least \$250 million in private capital for the purpose of providing rapidly processed short-term loans for the acquisition of property leading to the development of affordable ownership and rental housing by private developers. Like the guarantees provided by the Small Business Administration to motivate private banks to make loans to small businesses, the pledging of Proposition 1C funds as collateral will motivate private lenders in California to make loans that cover 100 percent of the acquisition costs so that the developers of these affordable ownership and rental properties do not have to waste time obtaining commitments from multiple funding sources and risk losing the opportunity to purchase the property.

1e) Sponsor: National Community Renaissance

Project: California Affordable Housing Revolving Development and Acquisition Fund

Seeks to establish a five-year pilot program. Dedicates \$50 million from the Innovation Fund to provide gap acquisition financing for developers to acquire land or properties for the purpose of developing affordable or mixed-income housing. Half of that amount to be used for an ongoing competitive loan program whereby developers can quickly secure short term equity to purchase property for affordable housing. The other half to be used to create the Practitioner Pilot Program where an affordable housing development

corporation, in partnership with the selected Fund Manager, will use the Pilot funding to leverage larger transactions that will develop affordable housing on a scale significantly larger than the 50-80 unit projects that are typically built. The Fund will be leveraged by at least three to one with private sector dollars to generate a minimum of \$200 million. Loans will be repaid to the Lender Fund and the Practitioner Fund over two to five years to be recycled into additional loans.

**1f) Sponsor: Sacramento Housing and Redevelopment Agency
Program: Affordable Housing Property Acquisition Program**

Seeks to use a portion of the \$100 million to provide gap financing for projects that meet the federal four percent tax credit guidelines. These projects must have at least 20 percent of their units restricted and occupied by individuals at 50 percent of AMI (area median income), or 40 percent of their units occupied by individuals at 60 percent of AMI. Eligible projects may include mixed-use developments that combine affordable (workforce housing) units with market-rate units, creating supply of both types of units.

**1g) Sponsor: Silicon Valley Leadership Group
Program: Local Housing Trusts**

Seeks to direct \$40 million to the Local Affordable Housing Trust Fund Account. Although local trusts were included in Proposition 46, they were not included in Proposition 1C. This proposal would require HCD to administer the program for the purpose of supporting local housing trust funds dedicated to the creation or preservation of affordable housing. Would require local communities to provide matching funds from private or governmental sources. Provides that \$20 million is to be allocated to communities establishing a trust for the first time and \$20 million to be available for existing trusts.

**1h) Sponsors: Golden State Mobilehome Owners League and Western Manufactured Housing Communities Association
Program: Mobilehome Park Resident Ownership Program (MPROP)**

Seeks to direct funding to finance the preservation of affordable mobilehome parks by conversion to ownership or control by resident organizations, nonprofits, or local governments. The MPROP program offers short-term, long-term, and blanket loans at three percent simple annual interest, to mobilehome park resident organizations, nonprofit entities, and local public agencies that have converted to resident ownership.

The program exists to provide low-income residents the opportunity to own an interest in the park in which they live and to secure and maintain affordability through the conversion of existing rental mobilehome parks to resident owned parks.

2) Regional Planning, Housing, and Infill Incentive Account (\$850 million)
implementation proposals:

2a) Sponsor: HCD

Proposal: Competitive Performance Based Awards

Seeks to establish a competitive performance-based award program for infrastructure grants for projects that will: (a) measurably increase the supply of infill housing produced as a direct result of the State's investment; (b) prioritize efficient land use and development patterns; and (c) ensure a reasonable geographic distribution of infrastructure resources throughout the State.

2b) Sponsors: Housing California and Planning and Conservation League

Proposal: Advancing Infill Home Development

Allow developers and local governments to apply for grants for the public infrastructure needs associated with a residential development – e.g. sidewalks and sewers – and loans to achieve below-market-rate rents and sale prices in the development. Require minimum densities and affordability. Rank projects based on density, affordability, consistency with a blueprint plan (if any), and proximity to jobs/transit/other amenities.

2c) Sponsor: California Association of Councils of Government

Proposal: Support for Regional Blueprints

For areas where there is a regional blueprint, the state would determine if projects meet applicable criteria and regions select best eligible projects. Where there is no blueprint state selects projects.

2d) Sponsor: California Housing Consortium

Proposal: Infill Development Set-Aside

Seeks funding for infrastructure improvements directly related to the creation of housing, including: roads, water and sewer, utilities, toxic clean-up demolition, site preparation, and infrastructure-related public impact fees. Additionally, provides funding for transportation linkages that promote public transit and required by project entitlements, where a replacement parking garage is required by a public entity to replace public commuter parking.

3) Transit-Oriented Development Implementation Program (\$300 million)

As noted above, this portion of the bond provides grants to cities, counties, and transit agencies for the provision of infrastructure necessary for the development of higher density uses within close proximity to a transit station and loans for the development of affordable housing within one-quarter mile of a transit station.

It is worth noting that under this provision there is no specific requirement that the development project, which may be an eligible beneficiary of bond funds, include any

housing. If the project does include housing, the development must include at least 15 percent of the units for low- or very low-income households. The committee may wish to consider amending this portion of the bond to require that any funding allocation under this portion of the bond *must* include housing which incorporates 15 percent of the units affordable to low- and very low-income households.

4) Housing Urban-Suburban-and-Rural Park Account (\$200 million) implementation proposals:

4a) Sponsor: HCD

Proposal: Housing-Related Urban-Suburban-and-Rural Parks

Seeks to create incentives to increase housing production by rewarding local governments with grant funds to create or improve well designed parks which would be administered by HCD in conjunction with the Department of Parks and Recreation.

Seeks to use the existing Workforce Housing Reward Program as a model, which will reward local governments for permitting additional housing by providing grant funds to improve existing parks or develop new parks in areas of the state with a demonstrated deficiency in parks.

4b) Sponsor: California Housing Consortium

Proposal: Parks Set-Aside

Supports a version of the Workforce Housing Reward Program and a new program to fund parks/recreation associated with below market rate development.