



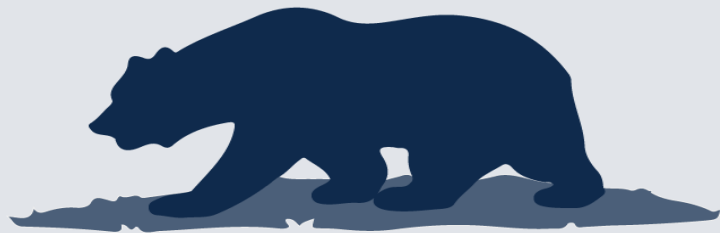
OBSTACLES AND OPPORTUNITIES AT THE INTERSECTION OF PUBLIC FINANCE AND THE HOUSING CRISIS



Introduction: Mapping the Intersection of California's Housing Crisis and Public Finance

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California's Housing Challenges in Context



Presented to:

**California Debt and Investment Advisory
Commission (CDIAC)**

Gabe Petek, Legislative Analyst
Legislative Analyst's Office

Introduction

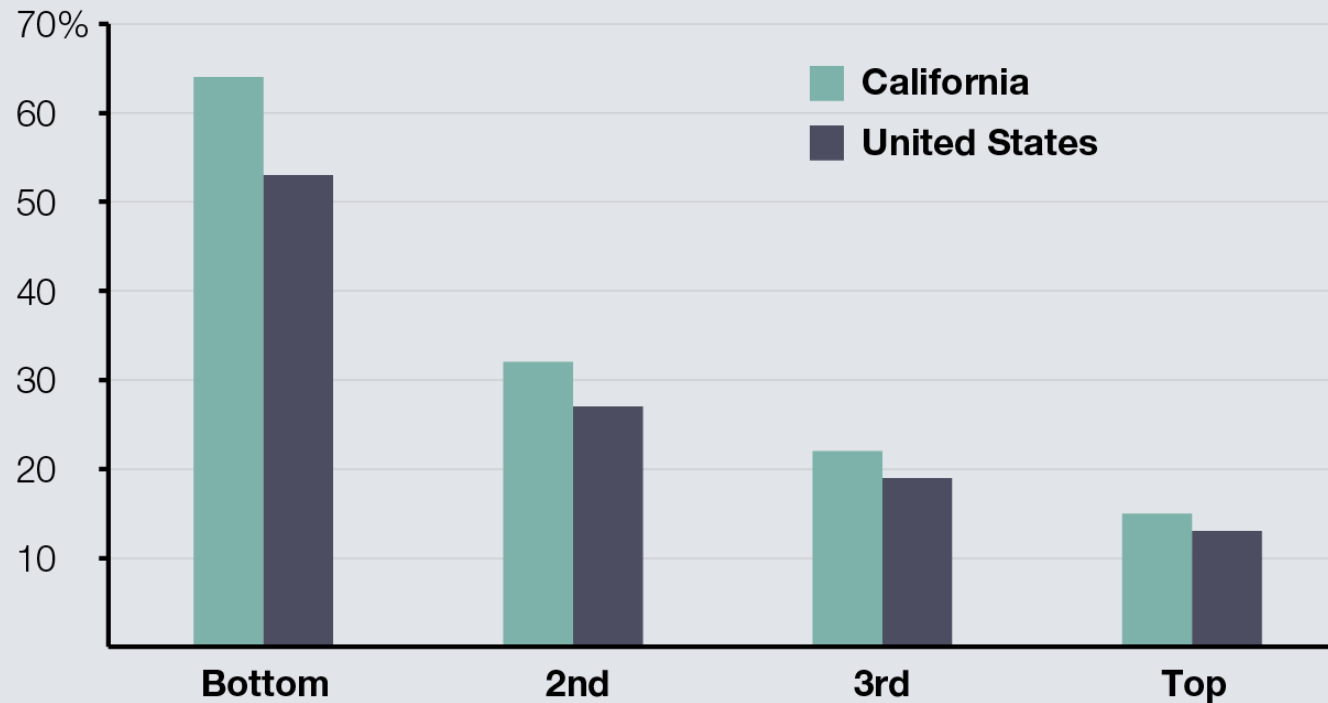
- **Many Households Have Difficulty Affording Housing in California**
- **Why Is Housing More Expensive in California?**
- **Housing Is Implemented and Planned at Local Level**
- **Recent Major State Actions**
- **Closing Thoughts on California's Housing Challenges**

Many Households Have Difficulty Affording Housing in California

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Californians Spend More on Housing Than the Rest of the Nation

Median Share of Income Spent on Rent by Income Quartile (2019)



Many Households Have Difficulty Affording Housing In California

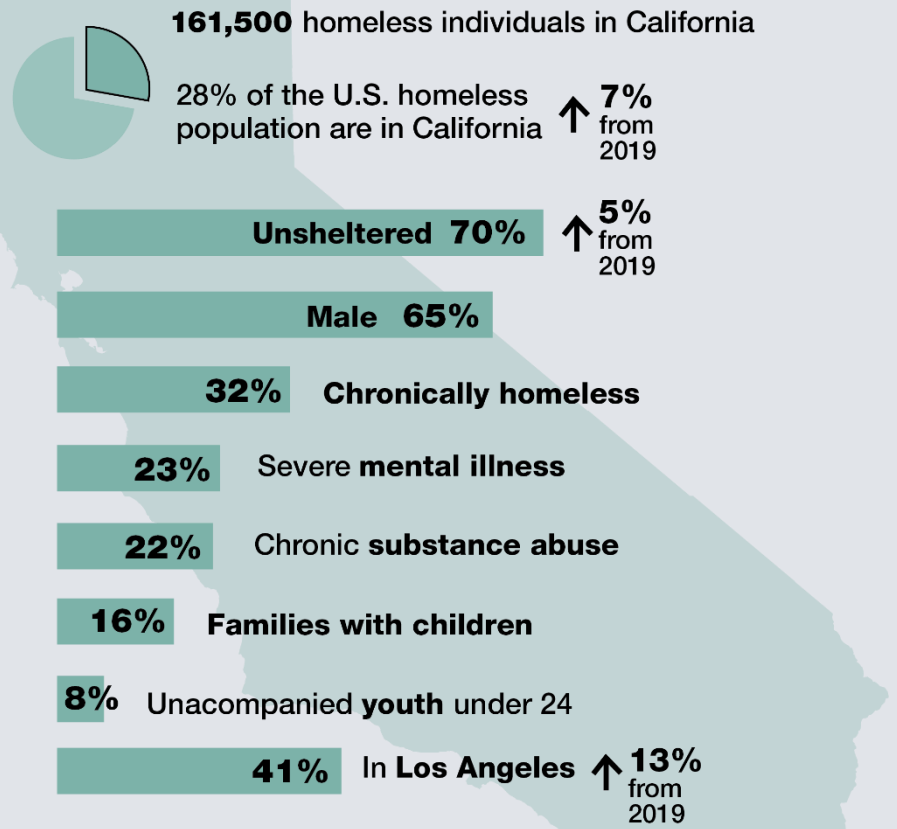
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- ***High Housing Costs Increase State Poverty Rate.***
- ***Low-Income Households Face Highest Rent Burden.***
- ***Housing Affordability Challenges Even Middle-Income Households.***
- ***Need for Low-Income Housing Assistance Outstrips Resources.***

Many Households Have Difficulty Affording Housing in California

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California's Homeless Population



Housing Affordability Affects Homelessness.
Rising housing costs that have exceeded growth, particularly for low-income households, put Californians at risk for housing instability and homelessness.

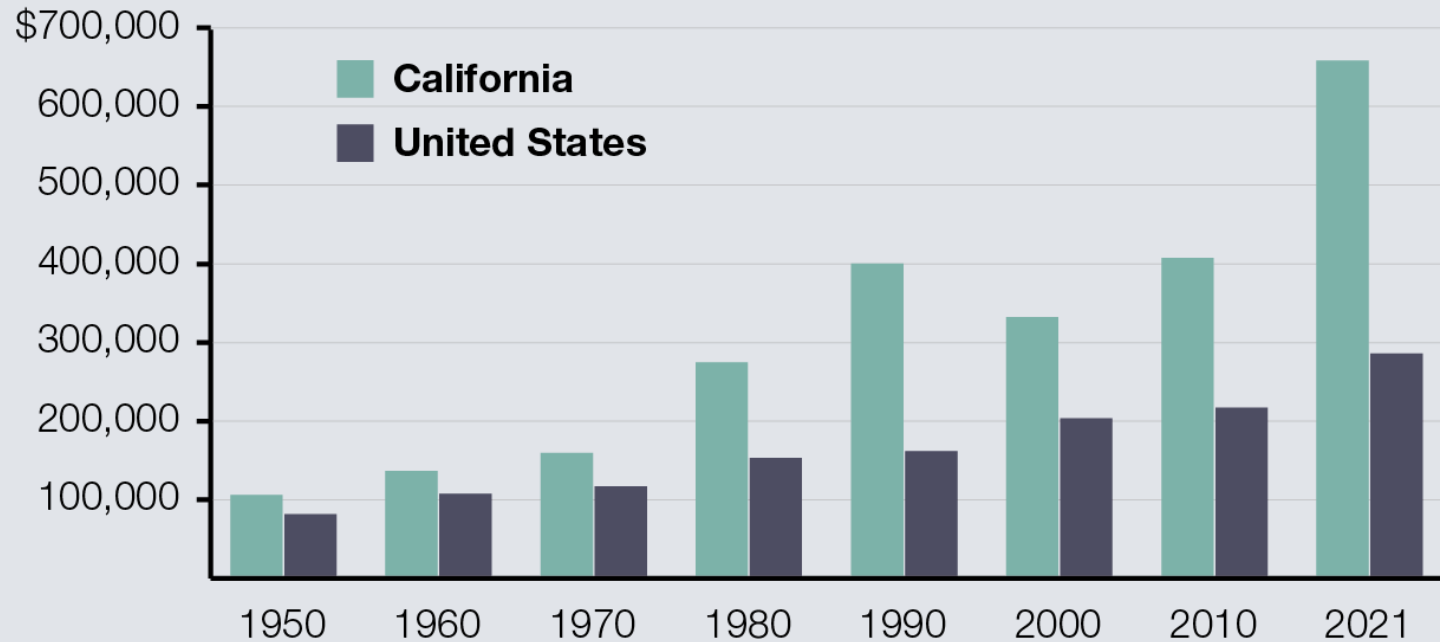
Figure based on the U.S. Department of Housing and Urban Development's January 2020 point-in-time homelessness count, before the onset of the coronavirus disease 2019.

Why Is Housing More Expensive in California?

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Building Less Housing Than People Demand Drives High Housing Costs

Inflation Adjusted Home Prices in 2021 Dollars



Why Is Housing More Expensive in California?

(Continued)

Building Less Housing Than People Demand Drives High Housing Costs

- ***Housing Production Does Not Meet Demand***
- ***Estimating California's Housing Shortfall***
- ***Spillover of Demand to Live on the Coast Affects Housing Costs in Inland California***

Why Is Housing More Expensive in California?

(Continued)

High Land Costs and Low-Density Development Make Housing Expensive

- ***Land Costs Are High on the California Coast.***
- ***High Land Costs Can Be Offset Through Dense Development.***
- ***Little Increase in Housing Densities in Coastal Metros.***

Why Is Housing More Expensive in California?

(Continued)

Building Costs Increase Housing Costs

➤ ***Building Costs Are Higher in California.*** Aside from the cost of land, three factors determine developers' cost to build housing:

- (1) labor.
- (2) materials.
- (3) government fees.

All three of these components are higher in California than in the rest of the country.

➤ ***Effect of Building Costs on Prices and Rents Varies Across Regions of the State.***

Housing Is Implemented and Planned at Local Level

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Establishing and Meeting Housing Needs

- ***Regional Housing Needs Allocation (RHNA) Process Defines Each Community's Fair Share of Housing.*** The state requires cities and counties to carry out certain planning exercises in an attempt to ensure they accommodate needed home building. Each community's fair share of housing is determined through a three-step process known as RHNA.
- ***Zoning Key to Meeting Housing Needs.*** To carry out the policy goals in their general plans and housing elements, cities and counties enact zoning ordinances to define each property's allowable use and form.

Housing Is Implemented and Planned at Local Level

(Continued)

Limitations of the Housing Element Process

- ***Communities Often Reluctant to Plan for Housing.***
- ***Demographic Projections Underestimate Housing Demand.***
- ***Time Period Covered by Housing Goals Is Too Short.***
- ***Identifying Ideal Sites for Housing Is Difficult.***
- ***There Are Practical Limits to State Oversight.***
- ***Affordable Housing Funding Insufficient for Locals to Meet Housing Goals.***

Recent Major State Actions

Recent Major State Actions

Recent Key Legislative Actions

- ***Shifting State-Local Relationship.*** Historically, local governments set their own policies that aim to address housing and homelessness in their communities. However, as the state's housing and homelessness challenges have become more acute, the state has taken a much larger role in housing and homelessness.
- ***Legislature Has Adopted Major Housing Legislation.*** In 2017, the Legislature passed a package of 15 bills aimed at addressing the high cost of housing in California.

Recent Major State Actions

(Continued)

<i>(In Millions)</i>			
Program	Amount	Funding Type	State Administrator
2018-19			
No Place Like Home	\$2,000	One-time	HCD
HEAP	500	One-time	HCFC
2019-20			
HHAPP	\$650	One-time	HCFC
Mixed-Income Loan Program	500	One-time	CalHFA
Affordable Housing Tax Credits	500	One-time	CTCAC
Infill Infrastructure Grant Program	300	One-time	HCD
Planning Grants to Local Governments	250	One-time	HCD
COVID-19 Emergency Homelessness Funding	100	One-time	HCFC
Project Roomkey	50	One-time	DSS
2020-21			
Homekey Program	\$800	One-time	HCD
Affordable Housing Tax Credits	500	One-time	CTCAC
National Mortgage Settlement	300	One-time	CalHFA
HHAPP	300	One-time	HCFC
Project Roomkey	62	One-time	DSS
2021-22			
HHAPP	\$1,000	Temporary	HCFC
Affordable Housing Backlog	1,750	One-time	HCD
Homekey Acquisitions	1,450	Temporary	HCD
Regional Planning Grants, Housing Infrastructure	600	One-time	HCD
Infill Infrastructure Grant Program	534	One-time	HCD
Foreclosure Prevention and Preservation	500	One-time	HCD
Affordable Housing Tax Credits	500	One-time	CTCAC
Affordable Housing Preservation	300	One-time	HCD
Project Roomkey	150	One-time	DSS
Homebuyer Assistance, Economic Impact Relief	100	One-time	HCD
Accessory Dwelling Unit Financing Program	81	One-time	HCD

Recent Major State Actions

(Continued)

Voter Approved Ballot Measures

- ***Veteran and Affordable Housing Bond Act.*** In November 2018, voters approved Proposition 1, a \$4 billion bond that provides \$1.5 billion for low-income multifamily housing, \$1 billion to veterans' housing assistance, and the remainder for various other housing infrastructure programs.
- ***No Place Like Home (NPLH).*** In November 2018, voters approved Proposition 2, which authorizes the use of funds from the Mental Health Services Act (Proposition 63 of 2004), which established a personal income tax surcharge on high-income earners, for NPLH. The Legislature created NPLH in 2016 to build and rehabilitate permanent supportive housing for those with mental illness who are homeless or at-risk of becoming homeless. The measure allowed for the issuance of \$2 billion in bonds for this purpose.

Closing Thoughts on California's Housing Challenges

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- **Major Actions Taken in Recent Years...** Over the last few years, the Legislature has enacted major legislation and provided significant funding aimed at boosting home building through a variety of avenues. These actions likely will lead to improved outcomes.
- **...Are Mostly Shorter-Term.** However, committed resources are largely one time or for a limited set of years, while the state's housing and homelessness problem is chronic.
- **Legislative Oversight Remains Crucial.** Additionally, it is critical for the Legislature to exercise oversight over recent state investments and monitor the state's progress towards addressing homelessness and housing affordability. Recent efforts to improve the state's data collection related to homelessness will aid oversight.

Closing Thoughts on California's Housing Challenges

(Continued)

- Finally, the enormity of California's housing and homelessness challenges suggests that policymakers continue to explore a variety of solutions. Below we identify possible responses being discussed by the Legislature and/or stakeholders to supplement existing actions.
 - Expanding state housing and homelessness programs.
 - Reforming local zoning laws.
 - Altering Allocation of local taxes.
 - Reforming local impact fees.
 - Streamlining California Environmental Quality Act.
 - Tying state funding to local housing production.
 - Rent regulation and tenant protections.
 - Expanding tax increment financing options.
 - Lowering voter-approval thresholds for local taxes.

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