Executive Summary

Among the most basic of human needs is a place to call home. And nowhere in the United States is this need harder to satisfy than in California. The lack of affordable housing is so severe that it threatens the health and welfare of thousands of Californians, as well as the state's long-term prosperity.

As California's population has grown, housing production for most income levels has failed to keep pace. Escalating housing prices have put home ownership in many communities out of reach for middle income workers like teachers, firefighters and law enforcement officers.

But the impact of the State's housing shortage is felt most profoundly by low-income Californians who struggle to keep a roof over their heads. Among low-income renters, about two-thirds pay more than half of their income for housing and 91 percent pay more than the recommended 30 percent. Homelessness also is increasing, affecting approximately 361,000 Californians – more than 1 percent of the population.[1]

For those with the lowest incomes, an adequate supply of affordable housing can mean the difference between having a safe place to sleep and being homeless, between paying the rent or having adequate food, clothing and health care. For many, the housing crisis is putting beyond reach the "American Dream" in its most humble terms of safe, stable and secure housing.

An Immediate Opportunity to Build Low-Income Housing

The Commission was told by state housing leaders that an immediate opportunity exists to increase the stock of low-income housing in California.

There is a backlog of quality projects at the door of the Tax Credit Allocation Committee.

These projects have land, zoning, management and financing in place. The only missing piece is the equity from tax credits.

On average, only one in four projects that apply for Low Income Housing Tax Credits are awarded tax credits.

State officials said simply increasing the state tax credit would be insufficient to address the backlog. The federal tax credits are those most coveted by developers and are oversubscribed. Under current law, only projects that receive federal tax credits qualify for state tax credits.

Nevertheless, the State should make every effort to immediately clear the backlog of ready-to-go, low-income housing projects by subsidizing them with any available housing funds.

The Department of Housing and Community Development asserts that if current trends continue, California will build less than 60 percent of the new housing needed over the next 20 years.

In this project, the Commission explored how public policies could be reformed to fortify the State's ability to provide an adequate supply of affordable housing for the growing number of young families, newcomers, seniors and other Californians with low incomes.

A central tension in housing policy is created by California's strong tradition of local control and the statewide interest in an adequate supply of housing. Cities and counties adamantly defend their authority to make land use decisions. But the aggregate of those decisions increasingly fails to meet regional and statewide needs, particularly when it comes to housing.

What is Affordable Housing?

Housing is considered affordable when a monthly mortgage or rent payment is no more than 30 percent of income. So defining affordable housing requires a consideration of both income and housing costs.

California housing element law defines four income categories based on the percentage of an area's median income:

- Very low-income 0 - 50 %
- Low-income 50 - 80 %
- Moderate-income 80 - 120 %
- Above moderate-income 120 +%

For example, statewide in California, a very low-income household (earning $18,240 or 30 percent of the state area median income of $60,800) should pay monthly rent of no more than $456. But the fair market rent for a two bedroom unit is $957.

Affordability varies by region. In San Mateo County, a very low-income household (earning $24,840 or 30 percent of $82,800) should pay monthly rent of no more than $621. Fair market rent for a two bedroom unit is $1747.

In Fresno County, a very low-income household (earning $12,270, or 30 percent of $40,900) should pay monthly rent of no more than $307. Fair market rent for a two bedroom unit is $511.

A minimum wage earner (earning $6.25 per hour) can afford monthly rent of no more than $325.

In California, 47 percent of renter households (2.3 million households) pay more than 30 percent of their income for rent.

Sources: California Health and Safety Code Section 50052.5 and 50053; National Low Income Housing Coalition, *Out of Reach 2001: America's Growing Wage-Rent Disparity*.

Regional economies have evolved from cities and counties that in an earlier time functioned largely independent of one another. In the 21st century, economic viability and issues like transportation, air quality and housing transcend the boundaries of local governments.

Even where new housing is a priority, communities and regions must negotiate legitimate and inherent conflicts over social equity, environmental protections, inadequate infrastructure and fiscal responsibility. Californians have come to associate growth – particularly multifamily housing – with noise, traffic congestion, school overcrowding and other negative impacts on the quality of life. Affordable housing also competes with the desire for more open space, tax-rich retail development and other priorities.

Still, communities have more opportunities than they recognize or acknowledge. Communities can pursue partnerships to lower risks for developers, streamline review procedures and build community support for affordable housing. Without undermining Proposition 13, residents could approve a small surcharge for water and sewer fees to create a subsidy for low-income housing.

Local control also means local responsibility. Laguna Beach, for example, has virtually no developable land left and some of the state's highest real estate values, yet finds ways to make land available for affordable housing. "There are obstacles," said the city's director of community development, "But where there's a will, there's a way." [2]

The Commission also concluded that the State needs to seize every existing opportunity to encourage and help local governments make affordable housing happen. Every regulation, every requirement and every funding stream encourages local governments to act in certain ways. The challenge is to align those incentives with the development of affordable housing. Transportation funds, park bonds, housing bonds and all other funding streams with a nexus to urban development can be used as incentives. Communities that are meeting their performance goals should go to the front of the line. Communities that are unwilling to do their part should have a longer wait for limited funds. They also could lose discretion in how they spend existing funds, including redevelopment funds.

The State also should create new opportunities by helping communities to effectively and safely recycle brownfields for residential development. It can develop model zoning ordinances that encourage efficient and transit-oriented development and employ other strategies that will help local communities develop housing in ways that are economically, socially and environmentally responsible.

To overcome the barriers to the development of housing, the State needs a comprehensive public policy that does not dictate local land use decisions, but compels communities – with incentives, assistance, and sometimes penalties – to do their part in meeting the statewide need for housing.

The Commission has identified five important ways that state policies should be reformed to increase the supply of affordable housing:

1. The State should provide leadership and strengthen housing element law to make more land available for housing. It should refocus the law from planning for housing to ensuring that housing is built.

2. Public policies should be reformed to encourage greater use of urban "brownfields" for affordable housing, while enhancing the well-being, ensuring the health and safety, and encouraging the involvement of neighborhoods and residents.

3. The State should draw more investors into the market by accurately identifying and reducing the risks associated with affordable housing and identifying new sources of private capital.

4. Public subsidies – essential to providing low-income housing in an inflated market – should be consistent, reliable and efficiently allocated. Some infrastructure-related costs for affordable housing

should be reduced, shifted to the State or shared by the larger community.

5. State housing programs should be coordinated to make access to subsidies easier, streamline monitoring requirements and provide technical assistance.

The State has struggled to define a relationship with local jurisdictions that respects "local control" over land use decisions, while ensuring that housing is available for a growing population. The State has nudged, cajoled, and encouraged local jurisdictions to do their part. Many have responded, but many have resisted. The housing element law alone provides little incentive to comply and no consequence for failure to perform.

The Commission believes that the statewide interest and the needs of communities can be met with leadership and reforms that provide meaningful incentives for affordable housing, reduce barriers and provide technical assistance to implement effective strategies.

Toward these ends, the Commission offers the following recommendations. Some of the recommendations would increase the supply of all housing; the Commission identified others that would specifically increase affordable housing.

Land for Homes: From Planning to Performance

Finding 1: California does not have adequate state policies to ensure that local communities provide housing at all income levels, particularly for those at the lowest income levels.

For the private sector to supply an adequate housing stock at all income levels, local governments must adopt land use plans and regulatory schemes that provide opportunities for housing development and eliminate unnecessary constraints.

The state has a housing element law that requires cities and counties to plan for housing, including an adequate supply of affordable housing. In recent years, the law has become increasingly controversial among policy-makers, state and local officials and housing advocates.

Some cities, like Emeryville, recognize that housing is essential for sustaining and rebuilding communities. They have embraced affordable housing as part of a larger economic development strategy. Previously dubbed "the dirtiest town on the Pacific Coast," Emeryville has become a model for land recycling and has consistently built more than its "fair share" of housing.

Other communities have defied affordable housing requirements. Folsom, for example, built no low- or very low-income housing in a decade despite constructing more than 7,000 units of market rate and luxury homes and apartments. Housing advocates sued and a superior court judge imposed a moratorium on most development. In April 2002, the case was settled with Folsom agreeing to accommodate up to 2,900 low- and very low-income units. The city also has agreed to create a housing trust fund, impose an impact fee on nonresidential development and adopt an ordinance for emergency shelters.[3]

Two fundamental problems hinder the effectiveness of the housing element law. First, the law requires local governments to plan for housing, but contains no enforcement mechanism. There are few incentives to encourage reluctant communities to adequately plan and no meaningful consequences when they fail to do so.

Second, the focus of the housing element law is on planning rather than performance. So even when jurisdictions have plans approved by the State, local communities do not have to demonstrate that they have done their part to ensure that planned housing actually gets built. General plans are easily amended to accommodate specific projects, undermining on a project-by-project basis the long-term housing goals.

The system for allocating quotas and approving housing elements is controversial among communities. Absent an effective mechanism for resolving conflicts, disputed housing elements can result in years of costly legal battles between cities and counties and the State.

The State does not have a mechanism to track actual construction of new housing and compare that to local and regional quotas. Many local jurisdictions do not maintain data on residential building permits and even fewer track occupancy certificates, a more precise measure of performance.

Housing Element Components

By law, every local jurisdiction is required to update the housing element component of its general plan every five years and submit it for approval to the Department of Housing & Community Development. Each housing element must include:

- Review and revision of the prior housing element
- Housing needs assessment
- Land inventory by zoning type
- Governmental and nongovernmental constraints on housing
- Quantified objectives of housing units by income level
- Public participation, general plan consistency and other general topics
- Local housing program policies and goals

Source: Housing Element Review Worksheet, Department of Housing and Community Development.

Sonoma County

Until recently, Sonoma County has not had a certified housing element since its general plan was first adopted in 1989. Sonoma County argued that the number of housing units the Department of Housing and Community Development (HCD) set for the county as its regional "fair share" was too high, claiming it could not meet the requirement without rezoning rural properties for housing development.

Two years ago housing advocates filed a lawsuit against Sonoma County for non-compliance with the housing element law. Last August, a judge ordered the county to bring its housing element into compliance with state law.

In response to the legal action, Sonoma County revised its plan by identifying thousands of sites that were previously zoned for commercial or industrial uses.

After 10 years of negotiations and two years in court, HCD agreed to certify Sonoma County's housing element as long as the county agreed to annual reviews by the department.

Source: Santa Rosa Press Democrat, January 30, 2002.

Policy-makers have had trouble tying incentives or penalties to the housing element plan or housing production, with local governments asserting that incentives and penalties diminish their local control or limit access to funds they are entitled to receive.

At a larger scale, the State issues sometimes conflicting mandates, without providing a process, resources or technical assistance to solve them. Local policy-makers must resolve conflicts between requirements for wildlife habitat, agriculture, open space, water supply – and housing. When conflicts arise, policies often disfavor housing – to the detriment of low-income Californians. Housing needs should be given greater emphasis in resolving these disputes.

The State should enact policies to strengthen the housing element law and expand its focus from planning to performance. The potential for Regional Councils of Governments, which now allocate housing quotas, to play a more active role in ensuring local governments meet housing goals could be explored.

Recommendation 1: To make sure its housing goals are met, the State should implement a comprehensive set of planning policies and fiscal incentives to ensure that local jurisdictions effectively plan for and actually produce affordable housing. Specifically, the State should:

- ***Strengthen and enforce the housing element law.*** The Department of Housing and Community Development should clarify what is required of local jurisdictions, ensuring that the requirements of the housing element law are measurable, and standardizing the review and approval process. It should prepare a model housing element to assist local governments to comply with the law.

- ***Reform the housing needs allocation process.*** The State should reform allocation of housing requirements based on the recommendations of established working groups and implement a process to resolve disputes over allocation decisions. Once reforms are implemented, the State should sanction communities that remain out of compliance.

- ***Align conflicting policies.*** The State should reconcile state policies that conflict with its goals for affordable housing, including policies for environmental protection, agricultural and open space preservation, and water supplies. It should align time frames and planning processes for transportation, air quality and housing and establish a venue to resolve conflicts. The development of housing, especially affordable housing, should be given greater emphasis.

- ***Provide fiscal incentives.*** The State should link future funding sources – such as transportation funds and proceeds from park or other bond measures – to a community's progress toward meeting its housing goals. It should identify funding sources that communities want and that would be effective incentives to produce housing. The State should pursue agreements with COGs and local governments in their regions on a set of incentives and penalties that are best aligned with local circumstances.

- ***Track performance.*** The State should develop a statewide database to track construction of new housing and compare it to housing element plans. COGs should assist cities and counties to track building permits and occupancy certificates and report the data to the State.

Empowering Councils of Governments

The State should explore opportunities to enlist Councils of Governments (COGs) as partners in accomplishing statewide and regional goals for housing. It should consider a system in which regional housing goals influence housing funding decisions – similar to the transportation planning and funding process.

Transportation policy and funding decisions evolve around a regional planning process where priorities and goals are established at the local and regional levels and are aligned with funding decisions.

COGs perform the state-mandated Regional Housing Needs Assessment – essentially a housing market and needs analysis. But there is little connection between that process and the allocation of funds to support the identified needs for affordable housing.

If COGs were given the authority to influence performance, outcomes could be improved. Specifically, the State should consider expanding the role of COGs to include:

- ✓ Working with cities to assure the State that there are adequate sites to meet regional needs.
- ✓ Allocating some housing funds based on regional needs and goals.
- ✓ Working with cities to transfer quotas when more affordable housing can be produced closer to jobs.
- ✓ Rewarding cities that accept higher allocation numbers.

Such a system would align planning and funding processes for affordable housing and integrate transportation, housing and other regional planning issues.

Roles for the State under such a system that have been suggested include review and approval of regional plans and participation with the COGs in funding decisions.

Sources: State Affordable Housing Resources: The Case for a Regionally-Based Allocation System, discussion draft, revised August 14, 2001, Southern California Association of Governments, Department of Planning and Policy, Community Development Section. Personal Communications: Mark Pisano, Rusty Selix, DeAnn Baker.

- ***Provide guidelines and technical assistance.*** The State should provide guidelines and technical assistance to help communities resolve conflicts and plan for and implement innovative strategies for affordable housing. It should utilize the expertise of the University of California to establish model zoning ordinances and best practices, including, for example, in-law housing and parking requirements for multifamily housing.

Land for Homes: Restoring Brownfields

Finding 2: Urban brownfields are an undeveloped opportunity to make land available for affordable housing close to job centers, break the cycle of deterioration and enhance the well-being of surrounding neighborhoods.

Typically concentrated in older urban centers, brownfields represent an untapped opportunity to increase the supply of land available for housing in urban areas. Brownfield revitalization also can boost sagging local economies with new jobs, increased tax revenues and improved health and safety. It is estimated that there are over 90,000 contaminated sites in California. [4]

California has enacted legislation in recent years to clarify the roles of state and local agencies in brownfield redevelopment and provide fiscal and regulatory incentives for developers and communities to clean up contaminated sites. But fundamental problems remain.

- ***Fragmented oversight.*** State oversight authority for brownfields cleanup remains fragmented among myriad federal, state and local entities and regulations, increasing the "red tape" and driving up the costs of developing these sites.

- ***Uncertain cleanup standards and liability.*** Uncertain cleanup standards and the liability imposed by federal and state regulations and policies have inhibited investment in these properties and hastened the retreat of investors to cheaper and safer

State Brownfield Programs

Cleanup Loans and Environmental Assistance to Neighborhoods (CLEAN). Established in 2000 by the Legislature and administered by the Department of Toxic Substances Control, the CLEAN program provides two types of grants and low-interest loans that can be used for preliminary site assessment and site cleanup. Six communities have received $5.5 million in loans for commercial and industrial redevelopment, low-income and market rate housing, mixed-use development and downtown revitalization.

Cal ReUSE. Recent legislation authorized the California Pollution Control Financing Authority (CPCFA) to establish a program to provide grants and loans for the identification, assessment and mitigation of brownfield sites. CPCFA has set aside $10 million for the Cal ReUSE program. Loans totaling $2.3 million have been committed to three communities, Oakland, San Diego and Emeryville, to assess contamination and determine the potential of brownfield sites.

Traditional economic development tools available for brownfield funding include: Redevelopment Agency Tax Increment Financing, Mello-Roos Bonds and State Enterprise Zones

Sources: Legislative Analyst's Office Analysis of the 2002-03 Budget Bill; Edith M. Pepper, *Strategies for Promoting Brownfield Reuse in California--A Blueprint for Policy Reform*, California Center for Land Recycling, October 1998.

"greenfield" developments. Recently enacted federal legislation will provide liability relief for small businesses and prospective purchasers of brownfield sites and grants for site assessment and cleanup.[5]

- **No inventory.** There is no requirement that jurisdictions or property owners specifically identify and disclose information about the existence of brownfields, the extent of their contamination or potential for reuse. As a result, there is no state repository for information on the number of abandoned urban properties statewide or their potential for increasing the supply of affordable housing or restoring communities.

With few exceptions, California lags behind states like Pennsylvania and New Jersey that have streamlined regulatory procedures, set standards for cleanup based on the intended use of the property and effectively shielded developers from liability.

The handful of effective California brownfield programs are largely the product of innovative local leaders who refuse to be deterred by the confusing bureaucracies and regulatory barriers. But few communities have leaders with the vision, creativity and political will to tackle the obstacles to brownfield development as a primary strategy to advance affordable housing.

A key factor in the success of local brownfield efforts is the willingness to effectively engage and provide the community with the opportunity to influence the redevelopment process. Effective community involvement can ensure that brownfield redevelopment meets the needs of residents and improves a neighborhood's well-being.[6]

Successful Brownfield Redevelopment

Emeryville

- **One-Stop-Shop Web site.** Provides online information by parcel on contamination status, zoning and density for all sites within the city.
- **Technical Assistance.** The city provides assistance to developers to help navigate the state regulatory process. Its Web site offers developers guidance on federal brownfield tax incentives and links to informative sites.
- **Loans.** Low-interest loans are available for site assessment and cleanup.
- **Redevelopment Agency.** High priority sites are acquired and cleaned up. The agency seeks recovery of costs and resells the certified sites to developers with specific development/land use objectives.

In 1996, Emeryville received a Brownfield Pilot Project grant from the U.S. EPA. The city also has tapped into redevelopment agency funds and the State's new Cal ReUSE loan and grant program.

According to the California Center for Land Recycling, 92 percent of the sites being cleaned up are the result of public/private partnerships. The State should aggressively promote the reuse of these sites for affordable housing – and other economic development opportunities – by establishing policies and providing incentives to engage communities, reduce risk and attract public and private investment. The State should facilitate brownfields programs in all affected communities, but particularly in those that fail to meet affordable housing goals.

Recommendation 2: California should seize the opportunity that urban brownfields present for increasing the supply of affordable housing by establishing policies and incentives that prioritize the reuse of these sites. The State should:

- ***Require local jurisdictions to identify potential sites.*** Cities and counties should identify and characterize potentially contaminated infill sites where affordable housing could be developed and publish an online inventory of sites. Local inventories should be reported to the State and identified in housing elements.

- ***Establish a statewide database.*** The Department of Toxic Substances Control should assemble the information developed locally into a statewide database. The database should be used to determine how much of California's housing demand could be met by redeveloping sites and where recycling would provide the greatest opportunities for increasing the stock of affordable housing.

- ***Develop state guidelines and streamline the approval process.*** The State should establish guidelines for cleanup that are based on the intended use for the site. Guidelines should provide regulatory certainty and protection from protracted and costly litigation when environmental impacts and other conditions have been met. Additionally, the State should provide local governments a clear definition of brownfields, and simplify and "fast track" the approvals process.

- ***Provide financial and technical assistance.*** The State should increase grants, loans and proceeds from housing bonds to local jurisdictions and private developers for site assessment and inventory development. Priority for funding should be given for sites that could be zoned for housing. The Department of Toxic Substances Control should conduct educational conferences and provide technical assistance to redevelopment agencies, cities, and counties to accomplish goals for brownfield development, including improving the capacity of communities to elicit public participation in decision making regarding redevelopment projects.

Should the State Buy and Clean Up Brownfields?

It has been suggested that the State consider buying and cleaning up some of California's brownfields as a way to advance the reuse of sites that are particularly difficult to market.

The State could use bond issues to buy and clean up land, then lease it to developers for affordable housing. By scheduling the rents appropriately, the State could use any excess cash flow to repay the bonds.

The State also could sell sites it has cleaned up and provide liability protection to the new owners. Whether the State could recover its costs would depend on the State's capacity to prudently buy land, clean it up, negotiate with developers and other factors.

The Commission has not examined these options, but believes they are worth exploring.

- **_Audit progress._** The Department of Toxic Substances Control should review and issue "report cards" on the progress of local jurisdictions in meeting goals for brownfield development. The department should focus first on those communities with the greatest number of brownfields and largest need for affordable housing.

To Lower Risk and Attract New Capital

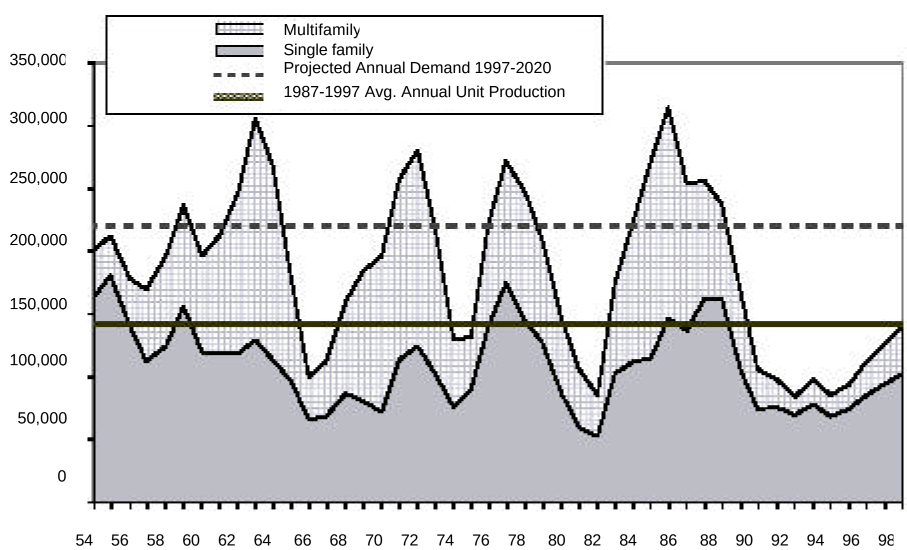
Finding 3: Diminished investment incentives, coupled with uncertainty and perceived risk, have quashed private investment in affordable housing – particularly multifamily housing.

For many developers, the uncertainty and high costs of the development approval process combine to make multifamily housing projects a high-stakes gamble.

A key incentive for private investment in multifamily housing disappeared with the enactment of the Tax Reform Act of 1986. From 1986 to 2000, the number of permits issued for multifamily housing fell from 45 percent to 25 percent of total residential permits issued – a decrease of more than 112,000 units. [7]

The vast majority of private capital invested in affordable housing comes from the banking industry as a result of the Community Reinvestment Act (CRA), which requires banks, thrifts and other lenders to invest in low- and moderate-income neighborhoods. Large institutional investors such as pension funds and insurance companies also are considered

California Residential Permits, 1954-



Source: *Raising the Roof*, California Department of Housing and Community Development.

potential sources of capital by policy-makers, but have been reluctant to participate. Recently, the Public Employees Retirement System and State Teachers Retirement System made commitments to invest in affordable housing.

Since Proposition 13, development fees and exactions have further increased the cost of housing, making it even more difficult for affordable housing to "pencil out." California leads the nation in imposing fees on new residential development, with cities and counties typically charging more than two dozen types of fees to cover the costs of planning, infrastructure and serving new developments. Fees average $20,000 to $30,000 per unit and account for more than 15 percent of new home prices in jurisdictions providing affordable housing.[8] A Bank of America representative described a loan for a $16 million project with loan fees of $1 million and impact fees of $1.6 million.[9]

Still, there are opportunities for the public sector to increase private investment and lower costs by reducing risk and spreading the responsibility for serving low-income homes.

Smart Permit Project

The Smart Permit Project was started in 1994 by Joint Venture: Silicon Valley Network to improve the development, review and permit process in cities and counties in the region by streamlining, automating and Internet-enabling the building permit process. Eight cities now have Web-enabled permit systems which allow property owners, contractors and businesses to check the status of their permits, submit plans electronically and apply and pay for permits online.

The Community Capital Investment Initiative in the Bay Area – a public-private-community partnership – has reduced risk by pooling funds, providing leadership and building capacity locally.

For developers, time is money. The Smart Permit Program – a permit streamlining project among cities in the Silicon Valley – is a model that could be adapted by communities statewide to reduce the costs and risks associated with affordable housing projects.

The experiences of institutional investors like Bank of America, Washington Mutual and others attest to the potential affordable housing investments have to provide acceptable – and competitive – rates of return.

The State should promote and support these types of strategies to reduce risk and attract capital investment in affordable housing.

Recommendation 3: The State should implement policies and promote practices to increase private investment in affordable housing. Specifically, the State should:

- ***Promote partnerships.*** The State should educate leaders from the public and private sectors about the potential of partnerships like the Community Capital Investment Initiative in the Bay Area to lower conflict, share risk and cost, and increase available capital. It should assist local and regional government officials to develop the skills and expertise to develop similar partnerships among businesses, residents, other local officials, and state and federal agencies.

- ***Increase the efficiency and certainty of the project approval process:***
  - ✓ Local jurisdictions should be encouraged to consolidate fee schedules, develop one-stop permit centers and provide for online review of projects.
  - ✓ Local jurisdictions should be encouraged to extend payments for development fees over time to reduce the present-value costs that inflate the bottom line of housing projects and burden homebuyers and renters.
  - ✓ The State should set standards for establishing fees as a way to reduce and rationalize their costs.

- ***Identify new sources of capital.*** The State Treasurer should convene a task force to identify new sources of private capital for investment in affordable housing. The task force should recommend a strategy for outreach and education about the financial and social returns achievable from affordable housing investments. Participants should include banks, insurance companies, pension funds, state housing agencies, the Business Roundtable, housing developers and advocates.

Subsidizing Affordable Housing: Making the Most of Available Subsidies

Finding 4: Public subsidies for affordable housing are inconsistent, unreliable and are not allocated in ways that provide the greatest value.

High development costs and low returns on affordable housing make it virtually impossible to develop affordable housing without subsidies.

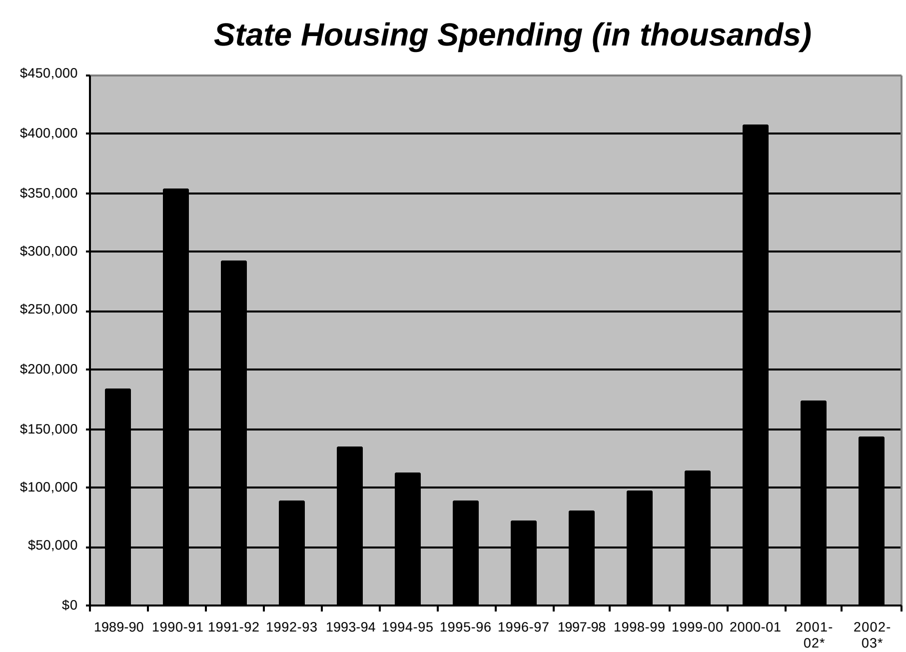
Affordable housing is subsidized in a variety of ways, including federal and state grants and loans, tax increments from redevelopment agencies, private investment – largely from the Community Reinvestment Act activities of banks – and through quota requirements placed on new development. But the funding has been inconsistent and unreliable, greatly frustrating efforts to build affordable housing in California.

Federal subsidies, still the largest source of funding for affordable housing, have declined dramatically. And state support has fluctuated wildly depending on the State's fiscal conditions and political priorities.

The lack of predictability and consistency has compromised the ability of housing officials to adequately plan for and administer programs. In some instances costly efforts to gear up for new programs have been wasted when budget cuts resulted in their premature demise. Sometimes, funds are redirected when political priorities change. Large funding increases in 2000-01 quickly fell victim to the 2001-02 fiscal crisis.

The California Housing Trust Fund, established in 1985, was intended to be a consistent funding source for state housing programs. But the fund receives less than $2 million annually. Other states have had much greater success with trust funds. In Florida, for example, a documentary stamp tax provides $120 million a year to its housing trust fund.

Approximately a dozen local housing trust funds exist in California, with Santa Clara, Sacramento and San Diego among the most notable. Major local initiatives are underway in San Mateo and Los Angeles. But the



Source: California Budget Project; * 2001-02 estimated (includes midyear reduction); 2002-03 proposed.

State has not provided leadership to encourage more widespread implementation of these efforts.

State subsidies are allocated largely on the merit of the individual project. In making awards, little consideration is given to how the project will address local and regional housing needs, as reflected in local and regional planning processes mandated by the State.

Redevelopment agencies, the largest source of funding for affordable housing after the federal government, are required to spend 20 percent of their property tax revenues on low- and moderate-income housing. But approximately 200 of the 800 redevelopment areas statewide are facing expiration of their time limits. Recent legislation permits redevelopment agencies to extend their time limit and continue to receive tax increment revenues when certain conditions are met.[10] Policy-makers and advocates also have proposed that redevelopment law be amended to increase the set-aside required for affordable housing.

When citizens have decent, safe and affordable housing, the entire community benefits. But since Proposition 13, the latest generation of homeowners, rather than the entire community, shoulders the cost associated with affordable housing.

Finding 3 described how development fees drive up the cost of all housing and suggested ways to rationalize and reduce the risk and cost to developers. If some fees for developments meeting specific criteria for affordability were shifted to the State and shared by the community, development costs for those projects could be reduced even further.

Some agencies are revisiting the costs of providing infrastructure-related service, resulting in lower fees for infill developments. Others are thinking about how to use surpluses to subsidize low-income housing.

Having declared affordable housing an issue of statewide importance, the State should ensure consistent and reliable sources of funding to support its goals. Recognizing the community-wide benefits of affordable housing, the State should implement strategies that permit the broader community to share some of the costs for affordable housing.

Economic Development Bank

Sacramento Regional County Sanitation District developed an Economic Development Treatment Capacity Bank of sewer impact fee credits. It offers reduced fees for local jurisdictions to encourage economic development for industrial, commercial and residential projects.

The “bank” came from excess capacity the district purchased from four local industries. It converted the capacity to 16,000 “estimated service demands.” (One ESD is the equivalent service needed for a single-family dwelling.) The district valued each ESD at $920 each, “banked” them and made them available for economic development purposes. (The market rate fee for one ESD is currently $3,500 and is expected to exceed $5,200 in 2002.)

Developers can apply for the credits. District staff says this reduces costs for developers and allows the district to more accurately plan future facilities.

The project is an example of how infrastructure agencies can do their share to lower the costs of low-income housing.

Recommendation 4: The State should identify permanent, dedicated sources of funding for the California Housing Trust Fund, promote local housing trust funds and enact policies to share infrastructure-related costs for affordable housing. Specifically, the State should:

- ***Identify a permanent, dedicated source of funding for the California Housing Trust Fund.*** Revenue sources that could be considered include: portions of real estate transfer taxes, document recording fees, bank and corporation taxes, interest from real estate escrow accounts, and others. The State should promote the establishment of local housing trust funds and give priority for state trust fund allocations to jurisdictions with matching local trust funds.

- ***Shift infrastructure costs.*** The State should pay portions of infrastructure costs for affordable housing projects meeting specific criteria, in areas with the greatest needs. For example, future school bond measures could include a fund to pay the local school impact fees for affordable housing projects. Other mechanisms could include returning an increased share of sales tax revenue to jurisdictions that reduce development fees, providing Infrastructure Bank loan incentives for jurisdictions that reduce fees, or earmarking fines from EPA enforcement actions with a nexus to infrastructure. It could exempt from school impact fees affordable projects serving populations, like seniors, that do not access schools.

- ***Spread infrastructure costs.*** The State should explore ways to spread infrastructure costs associated with low-income housing developments to the larger community.

- ***Allocate subsidies efficiently.*** As COGs play a larger role in advancing housing goals, regional planning processes and statewide needs should influence how housing funds are allocated. Decisions regarding funding should be coordinated among state agencies and COGs.

- ***Focus on tax credits.*** The State should more aggressively advocate for additional increases in the federal tax credit program. To immediately increase the supply of affordable housing, the State should allocate any increases in state funding for affordable housing to qualified projects that are ready to begin construction but are constrained by the limited supply of tax credits.

The Housing Bond: Evaluating its Effectiveness

The State did not conduct an analysis of the impact of the three housing bonds passed between 1988 and 1990. If the voters approve the proposed $2.1 billion housing bond in the November 2002 election, the Legislature should require a rigorous, independent evaluation of its effectiveness. Specifically, the evaluation should provide an analysis of who received the funds, the impact of the funds on specific projects and the statewide housing shortage, and provide policy makers with guidance for the use of future housing bond funds.

Subsidizing Affordable Housing: Making Subsidies Easy to Access

Finding 5: Developers of affordable housing must patch together funding from multiple and disparate sources, delaying development and increasing costs.

Nonprofit developers, the State's largest producers of affordable housing, commonly require 10 to 12 public and private funding sources per project. One developer reported using 22 sources for a single project.[11] The process of identifying available funding sources, submitting multiple applications, and meeting the different requirements is labor intensive and costly.

Three state agencies administer most state housing programs. Fragmentation – including multiple applications, different funding cycles and rules, changing scoring criteria and redundant monitoring – increase the time and cost involved with securing federal and state financing and maintaining projects. One developer said that state agency applications can often be 300 pages long and described the process as a "colossal waste of time for us and for the State."[12]

Even so, by all accounts, state agencies now work more cooperatively than ever before. The director of the Department of Housing and Community Development told the Commission that the coordination described by the Housing Task Force in its 1997 final report to the Legislature has been maintained and enhanced.[13] Agencies have a memorandum of understanding to meet regularly and coordinate activities. They are attempting to coordinate compliance monitoring and have made some progress to improve coordination of funding cycles.

The customers of these agencies – nonprofit and for profit developers – agree that important improvements have been made. They also concur that more remains to be done to streamline the application process, better align funding cycles and coordinate compliance monitoring. A representative of one state department said that additional efficiencies would not significantly reduce state administrative costs. The goal of these efficiencies, however, should be to increase the supply of affordable housing by reducing the time and costs to developers in accessing funding and maintaining projects. An important but secondary benefit could be some administrative cost savings for state agencies.

State officials assert that because the programs have different purposes and goals, coordination is difficult. Additionally, the Tax Credit Allocation Committee must abide by federal requirements, while CHFA and HCD have more flexibility to make their own rules.

Many of these arguments have merit. The programs were established independently, are complex and have different functions. Within the departments, separate and distinct organizational practices and cultures have evolved. But differences and difficulty should not be excuses for maintaining the status quo. When business-as-usual complicates the efforts of producers of affordable housing to efficiently access state resources, reforms are in order.

The State should provide leadership for reforms that will ensure continuous improvement in services to affordable housing developers. It should provide information and technical assistance to advance the housing goals of local communities.

Recommendation 5: The State should enact policies and practices designed to facilitate easy access to affordable housing resources. Specifically, the State should:

- ***Streamline the administration of state programs.*** The Governor and Legislature should direct the Department of Housing and Community Development, California Housing Finance Agency and the Tax Credit Allocation Committee to further coordinate their activities to provide more efficient and effective services to entities that access their programs. The agencies should strive for continuous service improvement and initially consider the following reforms:
  - ✓ A simplified "core" application for housing production programs with attachments, as necessary, for specific programs.
  - ✓ A "lead" agency and single point of contact responsible to coordinate and guide all applicants accessing more than one program.
  - ✓ Alignment of funding cycles.
  - ✓ Accelerated, concurrent and cooperative application review.
  - ✓ Consistent rating criteria.
  - ✓ Coordinated or consolidated compliance monitoring.

- ***Review progress.*** HCD, CHFA and TCAC should annually report to the Governor and Legislature their progress toward improved cooperation, coordination and service delivery. The departments, in consultation with developers and housing advocates, should identify performance indicators to measure progress, including time and resources required to secure funding, access to information and technical assistance, and compliance monitoring requirements.

- ***Establish a clearinghouse.*** The State should establish an affordable housing clearinghouse in the Department of Housing and Community

Development to provide "one-stop shopping" and technical assistance. The clearinghouse should:

- ✓ Maintain an inventory of private and public sources of funding for affordable housing.
- ✓ Pursue ways to align federal, state, local and private funding sources.
- ✓ Provide training and technical assistance to help developers more effectively and efficiently secure project funding.
- ✓ Provide training and technical assistance to local and regional governments on how to align housing and transportation policy and funding.
- ✓ Assist local communities to develop public-private partnerships.