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INFORMATIONAL HEARING:
AFFORDABLE HOUSING AND HOMELESSNESS

Thursday, February 21, 2019
John L. Burton Hearing Room (4203)
10:00 a.m. or Upon Adjournment of Session

AGENDA

I. Affordable Housing and Homelessness: Context and the Governor’s Proposal
- Lourdes Morales, Principal Fiscal & Policy Analyst, Legislative Analyst’s Office
- Vivek Viswanathan, Chief Deputy Director, Budget, Department of Finance

II. State Response: Recent Actions and Implementing New Programs
- Zach Olmstead, Deputy Director for Housing Policy, Department of Housing and Community Development
- Mark Stivers, Assistant Deputy Director for the Division of Financial Assistance, Department of Housing and Community Development
- Francesc Marti, Legislative Director, California Housing Finance Agency
- Ginny Puddefoot, Executive Director, Homeless Coordinating and Financing Council

III. Local Perspective: Recent Investments and Further Needs
- Michael Tubbs, Mayor, City of Stockton
- Phil Ansell, Director, Homeless Initiative, County of Los Angeles
- Doug Shoemaker, President, Mercy Housing California

IV. Public Comment

Affordable Housing and Homelessness

BACKGROUND: AFFORDABLE HOUSING

California is in the midst of a serious housing crisis. Homeownership rates in the state have fallen to the lowest rate since the 1940s. California is home to 21 of the 30 most expensive rental housing markets in the country, which has had a disproportionate impact on the middle class and the working poor. A person earning minimum wage must work three jobs on average to pay the rent for a two-bedroom unit. Housing units affordable to low-income earners, if available, are often in serious states of disrepair.

A major factor in this crisis is the state's housing shortage. From 1954-1989, California constructed an average of more than 200,000 new homes annually, with multifamily housing accounting for the largest share of housing production. Since then, however, construction has dropped significantly. The state Department of Housing and Community Development (HCD) estimates that approximately 180,000 new homes per year are needed to meet the state's projected population and housing growth by 2025. Even when housing production rose in the mid-2000's, it never reached the 180,000 mark, and over the last 10 years construction averaged just 80,000 new homes per year.

This lack of home building has driven a rapid rise in housing costs. Of the estimated 200,000 units of housing that are needed annually merely to keep up with population growth, only 113,000 units were permitted in 2017. Since 2007, fewer than 750,000 units were permitted, accounting for only 40 percent of the projected need.

California's housing shortage has had a disproportionate impact on lower-income families. According to the National Low Income Housing Coalition, while needs vary by region, California has a statewide surplus of above moderate/market rate housing (about 300,000), but suffers a shortfall of about 1.5 million units for extremely low-and very low-income households (at or below 50 percent of area median income). As a result, HCD estimates that approximately 2.7 million lower-income households are rent-burdened (meaning they spend at least 30 percent of their income on rent), 1.7 million of which are severely rent-burdened (spending at least 50 percent of their income on rent).While California's median income has just recently surpassed pre-recession levels, median rent has continued to rise. Statewide, half of all renters are rent-burdened, and nearly a third of all renters are severely rent-burdened.

State Requires Local Governments to Plan for Future Housing. State law requires local jurisdictions to plan for their future housing needs, as determined through the regional housing needs allocation (RHNA) process. Under RHNA, the Department of Finance and HCD develop forecasts of the number of housing units at various income levels needed to keep pace with population growth, which they allocate to regions throughout the state. Regional "councils of governments" allocate the regional housing need to local governments within those regions, which must develop a plan –the housing element portion of their general plan –to accommodate the additional housing growth.

Housing Approval is Largely Local. The California Constitution allows cities and counties to "make and enforce within its limits, all local, police, sanitary and other ordinances and regulations not in conflict with general laws." It is from this fundamental power (commonly called the police power) that cities and counties derive their authority to regulate behavior to preserve the health, safety, and welfare of the public—including land use authority.

Local governments use their police power to enact zoning ordinances that shape development, such as setting maximum heights and densities for housing units, minimum numbers of required parking spaces, setbacks to preserve privacy, lot coverage ratios to increase open space, and others. These ordinances can also include conditions on development to address aesthetics, community impacts, or other particular site-specific considerations. Local governments have broad authority to define the specific approval processes needed to satisfy these considerations. Some housing projects can be permitted by city or county planning staff "ministerially" or without further approval from elected officials, but most large housing projects require "discretionary" approvals from multiple local governments and boards, such as a conditional use permit or a change in zoning laws.

When approving development projects, counties and cities can require the applicants to mitigate the project's effects by paying fees. The California courts have upheld these mitigation fees for sidewalks, parks, school construction, and many other public purposes. When imposing a fee as a condition of approving a development project, local officials must determine a reasonable relationship between the fee's amount and the cost of the public facility.

Restrictive Land Use Policies May Limit Housing Density. California's high—and rising—land costs necessitate dense housing construction for a project to be financially viable and for the housing to ultimately be affordable to lower-income households. Yet, recent trends in California show that new housing has not commensurately increased in density. In a 2016 analysis, the Legislative Analyst's Office (LAO) found that the housing density of a typical neighborhood in California's coastal metropolitan areas increased only by 4 percent during the 2000s. The LAO also compared California's coastal areas to similar metropolitan areas across the country and found that new housing constructed during the 2000s in California's coastal cities was nearly 30 percent less dense on average than new housing in other comparable cities—10 units/acre in California compared to 14 units/acre in the other metropolitan areas. In addition, the pattern of development in California has changed in ways that limit new housing opportunities. A 2016 analysis by BuildZoom found that new development has shifted from moderate but widespread density to pockets of high-density housing near downtown cores surrounded by vast swaths of low-density single-family housing.

Construction of moderately-dense housing (2-49 units) in California peaked in the 1960s and 1970s and has slowed in recent decades. For example, in the Los Angeles metropolitan area, land area given to producing homes in moderately-sized multifamily structures has sharply decreased as a share of total land, from a peak of 23.7 percent in the 1960s and 70s to just 6.5 percent in the years since 2016. In addition, the share of census tracts in the area that saw almost no housing construction dramatically increased—from less than one percent to over 50 percent.

Zoning ordinances add additional constraints that can reduce density: setbacks, floor-area ratios, lot coverage ratios, design requirements, dedications of land for parks or other public purposes, and other regulations can reduce the space on a lot that a building can occupy in ways that lower the number of units it is feasible to construct on a lot.

Local governments also sometimes establish stringent zoning restrictions specifically to maintain discretion over development. This practice allows them to bargain more effectively with developers for contributions to services in order to overcome the fiscal effects of residential development (discussed below), or to simply provide more opportunities to deny projects.

Permitting Processes Also Play a Role. Cities and counties often require multiple layers of approval for new housing projects and commonly include review by multiple departments within the city (such as the building department, fire department, and health department), a design review board, the planning commission, and the city council or board of supervisors. Many of these reviews must be conducted at public hearings, providing venues for residents that oppose development to make their voices heard.

Most projects that require an approval where a local government exercises discretion must also complete California Environmental Quality Act (CEQA) review, which can entail complicated analyses of dozens of aspects of the environment upon which a development may have a significant impact, such as land, air, water, minerals, flora, fauna, ambient noise levels, and objects of historic or aesthetic significance. Development opponents can appeal many of these individual decisions to the planning commission and to the city council or board of supervisors. Finally, litigation over approvals is also common.

Fiscalization of Land Use. A series of propositions have drastically cut into local revenue sources, requiring local governments to look elsewhere to fund services that the public demands. First, Proposition 13 (1978) capped property tax rates at one percent of assessed value (which only changes when ownership changes) and required two-thirds voter approval for special taxes; as a result local governments turned to general taxes to avoid the higher voter threshold.

Proposition 62 (1986) required majority voter approval of general taxes, local governments imposed assessments that were more closely tied to the benefit that an individual property owner receives. Subsequently, Proposition 218 (1996) required voter approval of parcel taxes, assessments, and property-related fees. In response to the reduction in property tax revenues from Proposition 13 and the difficulty of raising taxes, local governments have turned to other sources of funds for general operations, including sales taxes and hotel taxes. These taxes are paid exclusively by commercial developments, which simultaneously pay property taxes and demand relatively few services (such as public safety or parks).

Residential developments, by contrast, do not directly generate sales or hotel tax revenue, and the new residents demand a wider variety of more intensive services. As a result, cities and counties face a disincentive to approve housing because of the higher net fiscal cost of residential development, particularly if they have the option to instead permit commercial development that may produce net fiscal benefits. Furthermore, because these initiatives made it harder for local governments to spread the cost of infrastructure and services over the entire community, local governments have turned to developer fees and other assessments or taxes levied on new development to pay for the services used by new residents and businesses. To the extent that developer fees reduce housing production, the fiscalization of land use also exacerbates the state's housing shortage.

Impacts of Restrictions on Housing Development. There is wide agreement among economists that restrictive land use policies increase housing prices, including findings that housing prices in California are higher and increase faster in jurisdictions with stricter land use controls. Stricter land use controls are also associated with greater displacement and segregation along both income and racial lines. Both the LAO and a 2016 analysis by the Institute of Governmental Studies (IGS) at the University of California, Berkeley indicate that building new housing would reduce the likelihood that residents would be displaced in future decades. Restrictive land use regulations also exacerbate segregation by income. Specifically, land use restrictions allow high-income households to cluster, excluding middle and lower income households from those areas.

Additionally, under-production of housing has been found to hurt economic growth more broadly because it keeps residents from moving to higher-cost areas to take more productive jobs that pay higher wages. Restrictive zoning that does not allow for additional density in already developed areas has several environmental and transportation-related impacts. Restrictions that maintain existing levels of density in highly desirable areas caps the overall population capacity in a given area, encouraging sprawl by directing developers to build on the edges of developed areas. This encourages lower-income workers to commute longer distances because they must look further from their jobs for housing that they can afford, costing these workers time and money. This also means that low-density housing works against the state's environmental goals, including reducing greenhouse gases, preserving agricultural and open space, reducing water usage, and reducing vehicle miles traveled.

State Funding for Affordable Housing. One way the state has sought to encourage affordable housing is by providing funding for programs that directly support or subsidize the development of affordable housing developments. Major programs include:

- CalHome, which provides: (1) grants to local public agencies and nonprofit developers to assist individual first-time homebuyers; and (2) loans to developers for projects that will have multiple owners, including single-family home subdivisions.

- Multifamily Housing Program (MHP), which finances construction, rehabilitation and preservation of permanent and transitional rental housing for lower income households.

- Veterans Housing and Homelessness Prevention Program (VHHPP), which supports the acquisition, construction, rehabilitation, and preservation of affordable multifamily housing for veterans and their families.

- Affordable Housing Sustainable Communities Program (AHSC), which provides grants and loans to support infill and compact development projects that reduce greenhouse gas emissions.

HCD administers CalHome, MHP, and VHHPP, as well as AHSC (in conjunction with the Strategic Growth Council). In addition, the Department of Social Services administers the CalWORKs Housing Support Program and the CalWORKs Homeless Assistance Program, which provide various forms of assistance to help CalWORKs families that are homeless or at risk of becoming homeless to quickly obtain or retain permanent housing and afford temporary shelter. The California Housing Finance Agency (CalHFA) also operates several loan programs to enable low-income households to purchase homes and offers financing to multifamily developers to acquire, rehabilitate, or construct affordable rental housing.

Additionally, a major source of financial assistance for affordable housing is the federal Low Income Housing Tax Credit (LIHTC) program. The LIHTC is an indirect federal subsidy developed in 1986 to encourage the private development of affordable rental housing for low-income households. The federal LIHTC program enables affordable housing sponsors and developers to raise project equity through the allocation of tax benefits to investors. Taxpayers claim LIHTCs approximately equal to a specified percentage of the project's "basis"—essentially project costs minus land acquisition and transaction costs—over a certain number of years, and start claiming the credit in the taxable year in which the project is placed in service. Projects must remain affordable to residents for 55 years.

In 1987, the Legislature authorized a state LIHTC program to augment the federal tax credit program. State tax credits can only be awarded to projects that have also received, or are concurrently receiving, an allocation of the federal LIHTCs. The amount of state LIHTC that may be annually allocated by TCAC is limited to $70 million, adjusted for inflation. This year, the total credit amount available for allocation was about $99 million.

Need for Affordable Housing Exceeds Available Funds. The state and local governments have taken steps to provide additional funding for affordable housing in recent years, as well as to make changes to rules governing local approvals of housing. However, even with these new sources of funds, a significant gap in housing production at all income levels is likely to remain, hampering the ability of the state to address housing affordability through funding alone. For example, according to the LAO, the amount of public funds needed to provide affordable housing to the 1.7 million low-income households in California that are severely rent-burdened (spending at least 50 percent of their income on housing) totals over $250 billion.

While some of this gap may be filled by sources other than direct state expenditures (such as federal Low Income Housing Tax Credits), the California Housing Partnership Corporation estimates that, on average, a developer requires $67,000 in assistance from the state's MHP to build each housing unit. Based on these numbers, meeting the state's needs for housing affordable to severely rent-burdened lower-income families would require approximately $114 billion from the MHP. In addition, this amount does not include funding to assist the roughly one million lower-income households that are rent-burdened, but not severely so. The amount of funding needed substantially exceeds the dedicated funding for affordable housing, which is expected to generate approximately $9 billion over the next five years.

Broader Policy Changes May Be Necessary. Accordingly, it is unlikely that increased funding alone can ensure affordable housing for many Californians. A variety of causes have contributed to the lack of housing production. Recent reports by the LAO and others point to local approval processes as a major factor. They argue that local governments control most of the decisions about where, when, and how to build new housing, and those governments are quick to respond to vocal community members who may not want new neighbors. The building industry also points to environmental reviews and other permitting hurdles. These issues pose challenges to constructing market-rate and affordable housing developments alike.

Simply Encouraging New Supply May Not Address Issue. Although increasing housing supply can lead to lower housing prices over time, there are limitations to ensuring housing affordability purely by generating new housing supply. First, the process by which new homes become more affordable over time, known as "filtering," proceeds slowly, meaning that it takes several decades for market-rate housing to become affordable to lower-income families. In addition, new housing can displace existing residents if adequate safeguards are not in place. Specifically, pockets of displacement may exist in an area, though new housing production can mitigate displacement pressures at the regional scale over time. Thus, policies that exclusively encourage very dense development in urban cores are likely to have tradeoffs.

Additionally, reductions in the cost of producing housing do not necessarily lead to a reduction in housing prices. The overall market price for housing determines what a developer can charge for a new unit, rather than what it costs them to build the unit. According to LAO, housing prices in California's highest-cost areas are as much as three times higher than the cost to produce new units—allowing developers to pocket the difference because they can sell new units at the price that the market will bear. Thus, reducing the cost of producing housing—such as by reducing regulatory hurdles, relaxing building codes, or lowering development fees—is unlikely to reduce housing prices in the near term and may instead benefit developers.

This suggests that making more housing affordable to more households will require a comprehensive approach. Such an approach could include changes to land use policies, incentives for increased development, and direct subsidization of affordable units. Focusing on only one of these potential approaches is likely to produce modest, if any, impacts on housing affordability statewide.

BACKGROUND: HOMELESSNESS

Homelessness in California is no longer confined to urban corridors. It pervades both urban and rural communities across the state and puts stress on local resources, from emergency rooms to mental health and social services programs to jails. Recent federal data estimates the state's homeless population at 134,278 in 2017, or 25 percent of the nation's homeless population. While national homelessness has decreased by 13 percent since 2010, homelessness in California has increased by nine percent in the same period.

The homelessness crisis is driven in part by the lack of affordable rental housing for lower income people. In the current market, 2.2 million extremely low-income and very low-income renter households are competing for 664,000 affordable rental units. Of the six million renter households in the state, 1.7 million are paying more than 50 percent of their income towards rent. The National Low Income Housing Coalition estimates that the state needs an additional 1.5 million housing units affordable to very-low income Californians.

Continuums of Care and Point in Time Counts. The number of people experiencing homelessness each year is determined by a point in time count (PIT) conducted on one night in January, by local community Continuums of Care (CoCs - local collaborative bodies led by a county or non-profit organization, and in a few cases a city). The PIT includes people experiencing homelessness who are "sheltered" –living in temporary shelters –and those who are "unsheltered," or living out in the open. The PIT is required by the U.S. Department of Housing and Urban Development (HUD) as a condition of receiving federal funding. The PIT has limitations: it is conducted on one night of the year, so it does not capture those people who cycle in and out of homelessness; it does not include people who are staying in a temporary situation; and, CoCs use different methodology to conduct their PIT, making it harder to compare data across the state.

The chart below summarizes the current homeless PIT counts by sub-population:

Breakdown of Homeless PIT by Sub-Population (January 2018)	
Total People Experiencing Homelessness	129,972
Unsheltered	89,543
Individuals	109,008
Families with Children	20,964
Unaccompanied Youth	12,396
Chronic Individuals	32,668
Veterans	10,836

Homelessness Across Sub-Populations. While certain populations, including veterans, families, and unaccompanied youth, often face higher rates of homelessness compared to the population at large, the conditions and circumstances of homelessness can vary for each of these groups, as can the services and supports that are most useful to them.

- Veterans - Veterans experiencing homelessness, according to HUD's December 2018 Annual Homelessness Assessment Report to Congress, accounted for 37,878 individuals experiencing homelessness on a single night in January 2018. Of those individuals, 29 percent (10,836 veterans) resided in California. According to the National Coalition for Homeless Veterans, the nation's veterans who experience homelessness are predominantly male (approximately 91% of the population), single, living in urban settings, and often suffering from mental illness, alcohol, and/or substance use disorders. While homelessness is caused by multiple, complex factors, veterans who have experienced post-traumatic stress disorder and/or substance use disorders have been found to be more at risk of experiencing homelessness, especially when those individuals lack a support network, or have difficulty obtaining employment in the civilian workforce. According to HUD's January 2018 point-in-time count, 62 percent of veterans experiencing homelessness resided in sheltered locations while 38 percent resided in places not suitable for human habitation; veterans accounted for a higher percent of adults in sheltered locations (9.1 percent) than adults in unsheltered locations (7.9 percent).

- Families - Homelessness looks different when it affects families with children, often consisting of young, single mothers with young children. Families with children experience homelessness for a number of reasons, including an inability to afford housing or conflicts with other family members. In California, 20,964 families experienced homelessness in 2018. According to HUD, 91 percent of families with children experiencing homelessness in the United States (164,023 individuals) in 2018 were residing in sheltered locations, and 16,390 individuals in families with children were counted in unsheltered locations, such as on the streets or in a car.

- Survivors of Domestic Violence - For many, domestic violence can be an immediate cause of homelessness. Oftentimes the primary concern of an individual fleeing domestic violence is safety; as such, survivors of domestic violence frequently seek refuge in transitional housing programs or even emergency shelters. On a single night in 2017, homeless services providers had more than 55,000 beds set aside for survivors of domestic violence. Depending on the nature of the domestic violence, survivors may be in need of short-or long-term rental assistance, as well as supportive services to address trauma.

- Seniors - Studies have shown that the number of seniors experiencing homelessness is also on the rise, with the number of sheltered elderly individuals experiencing homelessness increasing by 48.2 percent between 2007 and 2016. Though Social Security, Medicare, and Medicaid provide supports and services to seniors, not all seniors are able to access social safety net programs for which they may be eligible. Seniors often live on fixed incomes; faced with rising costs of housing and medical care, many seniors are forced onto the streets. And while shelters exist to serve individuals experiencing homelessness, facilities are often not equipped to provide the specialized care that seniors in need of medical care often require. Due to increased vulnerability as a result of their age and accompanying medical conditions, seniors experiencing homelessness are often susceptible to victimization.

- Unaccompanied Youth - A youth experiencing homelessness is defined as a minor younger than 18 or a young adult between 18 and 24 years old who is living independently without shelter. As of January 2018, there were approximately 36,361 unaccompanied youth experiencing homelessness under the age of 25, which represents between 7 percent and 10 percent of people experiencing homelessness as individuals. Homelessness among youth differs from homelessness among adults and families with children, and can often include sleeping on the streets, living in cars, living in shelters, or couch surfing –which refers to the practice of moving between temporary living arrangements, often a friend or family member's couch, without a secure place to live. One in 30 adolescent minors between ages 13 and 17 experiences homelessness in a year, and roughly 25 percent of this involves couch surfing only. Due to increased susceptibility to exploitation and violence, youth experiencing homelessness may develop substance use issues or engage in survival sex in order to find shelter or food.

- Students - Additionally, students, particularly those working towards obtaining higher education, face similar issues of housing insecurity. According to a 2018 study, 10.9 percent of California State University students reported experiencing homelessness one or more times over the course of the preceding 12 months. Of those students surveyed, 18 percent of those who had experienced homelessness identified as Black/African-American and first-generation college attendees. Reports also indicate that 45 percent of students throughout the nation reported housing insecurity.

- LGBTQ Youth - Recent studies have also demonstrated that youth who identify as lesbian, gay, bisexual, transgender, and queer/questioning (LGBTQ) are 120 percent more likely to experience homelessness than non-LGBTQ youth, and data show that up to 40 percent of the population of youth experiencing homelessness identifies as LGBTQ. While familial conflict has been reported as the most common cause of all youth homelessness, LGBTQ youth cite familial rejection of their gender identity as a primary cause of homelessness. As a result, services and supports for LGBTQ youth tend to focus on housing and identity-related supports to address the trauma of familial rejection and homelessness.

- Urban vs Rural Homelessness - Perceptions of homelessness often involve individuals living on the streets, beneath freeway overpasses, or in temporary or emergency shelters. However, the conditions and characteristics of homelessness not only vary across subpopulations, they also vary geographically, particularly when contrasting urban settings to rural ones. Individuals and families in rural areas often do not experience homelessness in the same way that their counterparts located in urban and suburban areas do. Rather than living on the streets or in shelters, rural homelessness can frequently take the form of individuals or families moving between substandard, overcrowded, and/or cost-burdened housing situations, or moving in with friends or relatives. This may primarily be due to the presence of familial networks, and a lack of service providers and supports, such as a shortage of affordable housing, inadequate mental health and substance abuse services, and a lack of support for victims of domestic violence.

Impacts of Homelessness. Homelessness has been correlated with a number of negative effects, including high rates of chronic disease and acute illnesses, a broad range of mental health and substance use issues, greater exposure to violence, malnutrition, extreme weather, and criminal charges. The conditions of homelessness can themselves make it more difficult to exit homelessness by creating barriers to the resources often necessary to obtaining income through training, education, and employment (barriers can include limited access to transportation, computers and printers, work-appropriate clothing, facilities for showering or bathing, and the like). Lack of recent and consistent rental or other housing history can make it more difficult to obtain housing. Additionally, a number of local jurisdictions have adopted laws that create crimes related to homelessness. These laws –including bans on camping in public, panhandling in public, loitering, sitting or lying down in certain public locations, and sleeping in cars–can make individuals experiencing homelessness more vulnerable to arrest, and therefore more susceptible to fines, jail time, and possession of a criminal record. Some of the sub-populations discussed above can be at particular risk of certain negative impacts of homelessness. For example, youth experiencing homelessness have been found to be at greater risk of commercial sexual exploitation and other forms of victimization, with LGBTQ youth facing higher rates of these instances than their heterosexual and cisgender counterparts.

Approaches to Addressing Homelessness. Efforts to address homelessness can be broadly sorted into a handful of categories. These include:

- Housing First - Housing First is an approach to homelessness that prioritizes moving people quickly into permanent, affordable housing without precondition and then providing supportive services in order to help people avoid returning to homelessness. Housing First is premised on the idea that housing should not be denied to anyone, even if they are abusing alcohol or other substances. Supportive services are offered to maximize housing stability and prevent returns to homelessness, as opposed to addressing predetermined treatment goals prior to providing housing. Housing First has been shown to reduce the overall local costs incurred when localities provide social services to people where they are, rather than allowing them to continue to cycle through emergency rooms, jails, and treatment centers. The federal government has moved to a Housing First model over the last decade that prioritizes permanent supportive housing. Chronic homelessness in the nation decreased by 27 percent between 2010 and 2016 as the federal government adopted the Housing First model. California embraced a Housing First model in 2015. SB 1380 (Mitchell), Chapter 847, Statutes of 2016, created the Homeless Coordinating and Financing Council to coordinate the state's response to homelessness and required all state agencies or departments that operate programs that provide housing or housing-related services to people experiencing homelessness or at risk of homelessness to adopt guidelines and regulations to include Housing First policies.

- Emergency shelters, crisis services and navigation centers - Emergency shelters and crisis services help people meet immediate survival needs by providing food, shelter, clothing, and hygiene services while connecting them to stable housing. In recent years, some local jurisdictions have opened navigation centers as a response to homelessness. In San Francisco, the navigation centers are designed to shelter residents experiencing long-term homelessness and differ from a traditional shelter in that they have few barriers to entry and intensive case management services.

- Rapid re-housing - Rapid re-housing is a housing model designed to provide temporary housing assistance to people experiencing homelessness by moving them quickly out of homelessness and into permanent housing. Rapid re-housing is provided through short-term intervention to pay housing expenses (including rental arrears, ongoing rent, and moving costs) and case management focused on housing stability. Rapid re-housing is a relatively new response to homelessness that became more prominent during the Great Recession. A study conducted by the Urban Institute found that rapid re-housing is a successful intervention for families. It has low barriers to entry, high placement rates, and low rates of return to shelter. However, rapid re-housing does not solve long-term housing affordability problems. After families exit rapid re-housing, many experience high rates of residential instability. Many move again or double up within a year and face challenges paying for rent and household necessities.

- Permanent supportive housing - Decades of research show that supportive housing with a Housing First requirement –a stable, affordable place to live with no limit on that stay, along with services that promote housing stability–ends homelessness among people who experience chronic homelessness. Supportive housing can lower public health costs and improve property values, and decreases recidivism in our local jails and state prisons. For these reasons, the state has invested millions of dollars in leveraging federal and local dollars to create more supportive housing.

- Capacity building - Capacity building at the local level is an important activity that helps to coordinate and improve the local response to homelessness. State funding can be used to improve local coordinated entry systems, develop plans to address homelessness, and collect and analyze data.

Key Federal Programs. Federal programs for those experiencing or at risk of homelessness generally are designed to provide housing assistance and other services such as health care, job training, or substance abuse treatment. The Departments of Health and Human Services (HHS), HUD, and Veterans Affairs (VA) are responsible for the majority of programs. HUD is the primary agency providing funding for housing, such as emergency shelters, permanent housing, and transitional housing. In addition, HUD collects data on homelessness in part to assist with service planning on the federal level. The Homeless Management Information System (HMIS) is a computerized data collection tool specifically designed to capture client-level, system-wide information over time on the characteristics and services needs of men, women and children experiencing homelessness. HMIS allows the aggregation of individual-level data across homeless service agencies to generate unduplicated counts and service patterns of individuals served. CoCs are required to have an HMIS system with the capacity to collect unduplicated counts of individuals and families experiencing homelessness.

The U.S. Interagency Council on Homelessness is required to coordinate the federal response to homelessness and has taken several steps to coordinate efforts and promote initiatives across federal agencies, including developing a strategic plan and criteria and benchmarks for ending homelessness, including veteran homelessness and chronic homelessness.

State Level Efforts to Address Homelessness. A number of efforts aimed at preventing and addressing homelessness are already underway in California. These efforts vary widely, with differing characteristics related to their administering department/agency; eligibility requirements; populations served; focus on prevention, amelioration, and/or long-term supports and services; types of supports and services offered; and others. A document compiled by the California Homeless Coordinating and Financing Council, entitled “California State Homelessness Funding Programs” (see accompanying document), provides a table describing state homelessness programs.

BACKGROUND: RECENT INVESTMENTS

2017 Housing Package. In 2017, the Legislature passed a package of 15 bills aimed at increasing the affordability of housing in California. The package included proposals to place a general obligation bond on the November 2018 ballot, create a permanent funding source for affordable housing by levying a transaction fee on new real estate transactions, and enact a variety of regulatory reforms to speed up development and construction of new housing. The bills included in the package are detailed below.

2017 Housing Package Statutes

Statute	Housing Package Component
Dedicated Housing Funding	
SB 2 (Atkins), Chapter 364, Statutes of 2017	Create a permanent source of funding for affordable housing with a document recording fee on real estate transactions.
SB 3 (Beall), Chapter 365, Statutes of 2017	Invest in a $4 billion housing bond with $3 billion for affordable housing and $1 billion for veterans housing.
Streamlining Housing Development	
SB 35 (Wiener), Chapter 366, Statutes of 2017	Streamline multifamily housing developments with an affordable component in infill areas across the state.
SB 540 (Roth), Chapter 369, Statutes of 2017	Establish Workforce Housing Opportunity Zones to streamline development in priority areas.
AB 73 (Chiu), Chapter 371, Statutes of 2017	Form Housing Sustainability Districts to streamline development in infill areas.
Accountability and Enforcement	

AB 72 (Santiago), Chapter 370, Statutes of 2017	Allow for interim housing element monitoring; enforce existing housing laws through collaboration with the Attorney General.
AB 879 (Grayson), Chapter 374, Statutes of 2017	Improve local reporting on housing outcomes; conduct a fee reasonableness study to evaluate local development fees.
AB 678 (Bocanegra), Chapter 373, Statutes of 2017	Strengthen the Housing Accountability Act.
SB 167 (Skinner), Chapter 368, Statutes of 2017	
AB 1515 (Daly), Chapter 378, Statutes of 2017	
SB 166 (Skinner), Chapter 367, Statutes of 2017	Secure "No Net Loss" in housing element sites inventory.
AB 1397 (Low), Chapter 375, Statutes of 2017	Promote feasibility of sites included in sites inventory.
AB 1505 (Bloom), Chapter 376, Statutes of 2017	Clarify that local governments may adopt inclusionary ordinances that require affordable housing set-asides.
AB 1521 (Bloom), Chapter 377, Statutes of 2017	Strengthen preservation requirements on rent-restricted affordable housing units.
AB 571 (Eduardo Garcia), Chapter 372, Statutes of 2017	Support farmworker housing by easing access to tax credit financing and allowing extensions for seasonal housing centers.

Recent Legislative Investments

The Legislature has made several recent investments in addressing the state's affordable housing and homelessness crisis. SB 2 (Atkins), Chapter 364, Statutes of 2017, provided an ongoing source of revenue for affordable housing and homelessness programs, providing an estimated $289 million per year for a variety of programs. The 2018 budget included $500 million in one-time General Fund resources for the Homeless Emergency Aid Program, which provides funds to address homelessness directly to the state's 11-largest cities and 43 Federally-designated Continuums of Care (CoCs). In 2018, voters also approved a $4 billion bond issuance for affordable housing and homelessness issues. Additionally, 20 percent of state cap-and-trade revenues are continuously appropriated to the Affordable Housing and Sustainable Communities program. These investments are summarized below.

2018-19 Budget Act
(Dollars in millions)

	SB 2	**General Fund**	**Total**
Housing for a Healthy CA/NHTF (HHC, HCD)	$ 63		**$ 63**
Homelessness Coordinating & Financing Council STAFF (HCD)		$ 1	**$ 1**
Homeless Coordinating and Financing Council BLOCK GRANTS (CoCs to cities, counties, JPAs)		$ 500	**$ 500**
California Emergency Solutions and Housing (CESH, HCD)	$ 63		**$ 63**
Homeless Youth and Exploitation Program (CalOES)		$ 1	**$ 1**
Domestic Violence Shelters and Services (CalOES)		$ 10	**$ 10**
CalWORKs Housing Support Program (CDSS)		$ 24	**$ 24**
CalWORKs Homeless Assistance Program (CDSS)		$ 8	**$ 8**
Home Safe (CDSS)		$ 15	**$ 15**
Homeless Mental Illness Program (DHCS)		$ 50	**$ 50**
SB-2 Planning Program (HCD)	$ 125		**$ 125**
Total	**$ 250**	**$ 609**	**$ 859**

This package included $500 million for the Homeless Emergency Aid Program (HEAP), which provided block grants directly to federally-designated Continuums of Care (CoCs) and large cities with populations over 330,000, so they may provide immediate emergency assistance to people experiencing homelessness or those at imminent risk of homelessness. Eligible uses include, but are not limited to the following:

- Homelessness prevention activities.
- Criminal justice diversion programs for homeless individuals with mental health needs.
- Establishing or expanding services meeting the needs of homeless youth or youth at risk of homelessness.
- Emergency aid.

The parameters of the program are intentionally broad to allow local communities to be creative and to craft programs that meet the specific needs they have identified.

$62.5 million in SB 2 funding was provided to the Housing for a Healthy California program (HHC), which creates supportive housing for individuals who are recipients of, or eligible for, health care provided through the California Department of Health Care Services' Medi-Cal program. The goal of the HHC program is to reduce the financial burden on local and state resources due to the overutilization of emergency departments, inpatient care, nursing home stays, and use of the corrections systems and law enforcement resources as the point of health care provision for people who are chronically homeless or homeless and high-cost health care users. An additional $62.5 million in SB 2 funds were provided for the California Emergency Solutions and Housing program (CESH), which funds five primary activities: housing relocation and stabilization services (including rental assistance), operating subsidies for permanent housing, flexible housing subsidy funds, operating support for emergency housing interventions, and systems support for homelessness housing delivery systems.

GOVERNOR'S PROPOSAL

The Administration has recognized that housing is a statewide issue and a lack of affordable housing directly contributes to the increased homelessness seen across the state. To address these crises, the Administration proposes to make significant investments through a multi-pronged approach that includes incentives to increase housing production and additional resources to provide access to shelter and services to individuals and families with immediate needs. In total, the Governor's Budget includes $7.7 billion across multiple departments and programs to address housing and homelessness throughout the state. Most of these are ongoing funds provided by SB 2 or recently-passed bond acts, with roughly $2 billion being new one-time spending. These totals are detailed below.

2019-20 Affordable Housing and Homelessness Funding
(Dollars in Millions)

Department	Program	Amount
Department of Housing and Community Development	Housing Planning and Production Grants	$750
	Veterans and Affordable Housing Bond Act Programs (SB 3)	$526
	No Place Like Home Program	$400
	Building Homes and Jobs Fund Programs (SB 2)	$277
	Federal Funds	$228
	Housing for Veterans Funds	$75
	Office of Migrant Services	$6
	Various	$15
California Housing Finance Agency[1/]	Single Family First Mortgage Lending	$2,000
	Mixed-Income Loan Program	$500
	Multifamily Conduit Lending	$300
	Multifamily Lending	$120
	Single Family Down Payment Assistance	$113
	Special Needs Housing Program	$20 [2/]
Homeless Coordinating and Financing Council	Planning and Progress Grants to Address Homelessness	$500
Strategic Growth Council[3/]	Affordable Housing and Sustainable Communities	$395
Tax Credit Allocation Committee	Low Income Housing Tax Credits (State)	$600
	Low Income Housing Tax Credits (Federal)	$299 [4/]
	Farmworker Housing Assistance Tax Credits	$1
Department of Veterans Affairs	CalVet Farm and Home Loan Program	$220
Department of Social Services	CalWORKS Housing Support Program	$95
	Housing and Disability Advocacy Program	$25
	CalWORKS Homeless Assistance Program	$16
	CalWORKS Family Stabilization, Housing Component	$4 [5/]
Department of Health Care Services	Whole Person Care Pilots - Housing Investment	$100
	Project for Assistance in the Transition from Homelessness	$9
	Whole Person Care Pilots Program, Health Homes Program, Mental Health Services Act Community Services and Supports, California Community Transitions Program	N/A [6/]
Office of Emergency Services	Domestic Violence Shelters and Services	$54
	Domestic Violence Housing First Program	$19
	Transitional Housing Program	$19
	Specialized Emergency Housing	$10
	Homeless Youth and Exploitation Program	$1
	Youth Emergency Telephone Network	$1
California State University	Basic Needs Funding - Student Hunger and Homelessness Programs	$15 [7/]
University of California	Basic Needs Funding - Student Hunger and Homelessness Programs	$15 [7/]
Department of Public Health	HIV Care Program	$6
	Housing Opportunities for Persons with AIDS (HOPWA)	$4
	Housing Plus Program	$1
California Department of Corrections and Rehabilitation	Integrated Services for Mentally-Ill Parolees	$4
	Specialized Treatment of Optimized Programming, Parolee Service Center, Day Reporting Center, Female Offender Treatment and Employment Program, Proposition 47 Grant Program	N/A [6/]
Total		**$7,743**

[1/] Amounts are based on lending activities from 2018-19 trends.
[2/] This amount represents a voluntary allocation of Proposition 63 funds from 16 participating counties.
[3/] The Affordable Housing and Sustainable Communities program amount reflects 20 percent of projected Cap and Trade revenues. The Transformative Climate Communities program ($40 million for 2019-20) funds various activities, including housing as an eligible capital component; however, the investment in housing will not be determined until awards are made.
[4/] This amount represents the 9 percent tax credits allocated in 2019 and an estimated figure for 4 percent credits to be awarded in 2019 based on 2016-2018 averages. This figure does not include the approximately $4 billion of tax-exempt bond debt allocation that is available for award from the California Debt Limit Allocation Committee.
[5/] This amount represents an estimate of the portion of the program associated with housing and homelessness activities.
[6/] The state provides a number of wrap-around supportive services through these programs, including housing support and application assistance, which cannot be separated from the Department of Health Care Services' and Department of Corrections and Rehabilitation's general budgets.
[7/] This program supports basic needs partnerships for low-income students facing housing or food insecurity.

ISSUES TO CONSIDER

Overall Strategy and Interaction with Recent Investments. The Administration's proposal is ambitious and wide-ranging. At the same time, the overall framework guiding these investments is unclear, particularly in light of recent legislative investments in this space. Previous legislative investments focused on immediate solutions to homelessness (HEAP and CESH), as well as planning support for local jurisdictions (one half of the first year of SB 2 revenues are devoted to local planning grants). The Governor's proposal provides $750 million for housing planning and production grants ($250 million of which is intended to directly support planning activities). The proposal also makes $500 million available to jurisdictions with regional homelessness plans for emergency shelters and supportive housing. While these investments are worthwhile, it is unclear how they complement already-existing programs such as CESH or HEAP, or how they will coordinate with those programs to continue to provide support where it is needed.

It is worth noting that the two grant programs described above are not fully dedicated to either housing production or homelessness. In both proposals, a portion of funds ($500 million for housing planning and production and $200 million for homelessness) would be awarded to local jurisdictions for "general purposes" once certain performance milestones are met. The Administration has indicated that these are intended to be an incentive for local jurisdictions to deliver on actions that build affordable housing and provide support for homeless populations. There is merit to this approach, but it also means that the majority of the funding in these programs is not targeted at housing production or homelessness. The Legislature should determine whether this is an appropriate approach and if it is, if this is the appropriate proportion of directly targeted funds to incentives.

Homelessness and Affordable Housing Are Closely Related… As noted above, the state's lack of affordable housing has complicated efforts to respond to the state's homelessness crisis. Households are more likely to fall into homelessness due to an unforeseen expense, such as unexpected medical bills, if they are extremely rent-burdened. At the same time, it is difficult to find available, affordable housing for such households if there is a serious shortage of affordable housing. Put another way, individuals who fall into homelessness are likely to stay homeless, or regularly cycle between being housed and homeless, unless there is affordable housing readily available.

… But Cannot Be Treated With a Single Policy Solution. Homelessness is indeed a housing problem, first and foremost, but the homeless population often has a range of issues to overcome, which may include mental illness, drug abuse, and domestic abuse. These issues often interfere with the ability of homeless individuals to get and stay housed, and require specific policies and services to address. As such, simply building new affordable housing will not fully address homelessness issues.

The balance of the Administration's investments provide services targeting populations suffering from these specific issues, including middle-income homebuyers, those suffering from mental illness, recent parolees, and victims of domestic violence. All of these programs have merit, and are meeting the needs of a specific population. However, the Legislature should consider how these investments complement or duplicate one another, and if there are other populations equally in need of support that may not be otherwise supported.

The Legislature may also want to consider to what extent this package addresses existing gaps in funding and services. While the state has invested in emergency solutions to homelessness, permanent supportive housing, and affordable housing development, it has not provided to same level of support to interim housing solutions that keep people housed and prevent them from falling into homelessness. Such services, which may include operating subsidy/rental assistance for deeply-targeted affordable housing and legal assistance for tenants at risk of eviction, are necessary to move individuals from homelessness into permanent housing. The Legislature may want to consider the extent to which such investments are necessary and desirable.

Tax Credits Are a Valuable Tool But Have Limitations. The Governor proposes to invest an additional $500 million (in addition to the current $100 million) in the state's Low Income Housing Tax Credit (LIHTC) program, which provides tax credits to developers of affordable housing projects. This includes $300 million for the existing LIHTC and $200 million in a new middle-income tax credit that is designed to pair with CalHFA's new Mixed Income Loan Program. These programs are designed to complement the roughly $299 million in federal tax credits made available to the state each year.

Two federal credits are provided for the state to allocate, the nine percent credit and the four percent credit, which are provided annually over 10 years. The nine percent program is competitive and provides approximately 70 percent of a project's total costs. In its two funding rounds per year, the program has been historically oversubscribed, with twice as many applicants as awards. The four percent program, which is currently underutilized, is non-competitive and provides approximately 30 percent of a project's total costs.

The Administration has indicated that the expanded LIHTC is intended to bolster the federal four percent tax credit, which is currently underutilized. While the LIHTC is a valuable tool for encouraging affordable housing development, it has limitations. The rates used to determine the total amount of the state tax credit (representing all four years of allocation) are 30 percent of the eligible cost of a project that is not federally subsidized and 13 percent of the eligible cost of a project that is. Combining federal four percent credits (which amounts to roughly 30 percent) with state credits (which amounts to 13 percent) only covers 43 percent of a project's eligible cost. While this is a necessary support for many affordable housing developments, it may not be enough to make certain projects financially viable if they require more than 43 percent of their eligible cost to be subsidized. Simply expanding the supply of state LIHTC does not address this fact, and therefore may not result in an expansion of LIHTC-supported affordable housing development. The Legislature should consider whether this proposal is the best approach to expanding affordable housing development, or if policy changes, expanding available loan funding programs, or another approach would better meet the state's policy goals.