LOCKED OUT!

California's Affordable Housing Crisis

A PUBLICATION OF THE CALIFORNIA BUDGET PROJECT

MAY 2000

California Budget Project

The **California Budget Project** (CBP) was founded in 1994 to provide Californians with a source of timely, objective and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low and middle income Californians. Support for the CBP comes from foundation grants, publications and individual contributions. A grant from the Ford Foundation supported the preparation of this report.

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Acknowledgements

Locked Out: California's Affordable Housing Crisis was researched and written by Erin Riches and Jean Ross of the California Budget Project with the assistance of Paul Leonard, an independent housing policy consultant. Delaine McCullough and Kate Breslin of the California Budget Project contributed to sections on California's fiscal structure and the relationship between welfare reform and housing, respectively. Kim Wielinski prepared the final document for publication.

This report would not have been possible without the assistance of a dedicated and thoughtful advisory board who cheerfully reviewed drafts, answered questions, and contributed their wealth of expertise on housing policy. Mike Herald of Housing California provided the initial inspiration and ongoing leadership for a productive and enjoyable collaboration between the California Budget Project and Housing California. The authors wish to thank a number of individuals for their assistance with this report. Ben Bartolotto of the Construction Industry Research Board provided 1999 housing production data. Michael Cousineau shared data from a survey of homeless individuals in Los Angeles. Mary Brooks of the Center for Community Change helped identify housing spending in other states. Housing California shared the findings of an unpublished survey of assisted housing waiting lists. A number of individuals shared their insight into local housing markets and housing programs, including Teresa Colby, John Chan, and Michael Carroll of Bank of America; Tim Iglesias of Non-Profit Housing Association of Northern California; Betty Pagett of the Marin Housing Council; Merlin Wedepohl of Shelter, Inc.; Dave Brigode of South County People for Economic Opportunity; Dennis Lalor of South County Housing; Linda Mandolini of Eden Housing; John Mealey of the Coachella Valley Housing Coalition; Tom Collishaw of Self-Help Housing; and Ron Javor of the California Department of Housing and Community Development. John Landis of the Department of City and Regional Planning at the University of California at Berkeley and David A. Vandenbroucke of the federal Department of Housing and Urban Development provided extremely helpful methodological and policy advice.

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Executive Summary

California's booming economy has created an affordable housing shortage of crisis proportions. In some parts of the state, housing at any price is in short supply. Rather than helping to make housing affordable, the strong economy has exacerbated the state's housing problems.

California's housing crisis has serious implications for the families affected, for the communities in which they live, and for the overall well-being of the state's economy. The diversity of the state's local economies gives rise to a diversity of housing problems.

California Suffers From a Lack of Affordable Housing

Far and away, affordability is the most significant housing problem confronting California's families. Housing constitutes the single largest expenditure for most California families. While adequate shelter is fundamental to a decent life, a roof over one's head is becoming increasingly unaffordable for many California families.

Renters Face the Greatest Affordability Challenges

- Over four out of ten (43 percent) of all California households are renters, and renters face the greatest affordability challenges. In 1997, nearly a quarter of the renter households in the state's metropolitan areas (1 million out of 4.2 million households) spent more than half of their incomes on rent. A total of 2 million renter households paid more than the recommended 30 percent of their incomes toward shelter. All indications suggest that the situation has grown worse over the past three years.
- Nearly two-thirds (65 percent) of low income renters paid more than half their income for housing in 1997 and 86 percent spent over the recommended 30 percent of their income on housing.
- The number of Californians in need of affordable housing far outstrips the supply of low cost units. In 1997, the number of low income renter households in the state's metropolitan areas exceeded low cost rental units by 2.1-to-1, a gap of 684,000 units.
- Over the past decade, the cost of rental housing has risen faster than inflation in the state's two largest metropolitan areas and faster than the incomes of the average California family. Rental housing costs increased 14 percent in Los Angeles and 38 percent in San Francisco between 1989 and 1998, while the income of the median renter household increased by 9.6 percent and the median income of renter households with children increased 6.3 percent.

High Housing Costs Have Pushed Homeownership Out of Reach for Many California Families

- Despite a booming economy, California's homeownership rate is the second lowest in the nation. Only 55.7 percent of California households owned their own homes in 1999, compared to 66.8 percent for the nation as a whole.

- The state's homeownership rate is low because fewer Californians can afford to buy a home. Nationally, 55 percent of households could afford to purchase the median priced home in 1999, as compared to 37 percent of California households. Only 27 percent of the region's households can afford the median priced home in the Bay Area, and even fewer (23 percent) can afford the median priced home in Monterey County. The median California household earns less than two-thirds the income needed to purchase the median priced home.
- The composition of California's homeowners has changed dramatically over the past two decades. The share of homeowner households headed by individuals in their twenties dropped by 40 percent between 1979 and 1999 (from 31 percent to 18 percent). The share of owner households headed by individuals in their thirties dropped 29 percent (from 61 percent to 44 percent). In fact, homeownership rates are down among all age groups except for households headed by seniors.
- California's low income homeowners experience significant housing cost burdens. Over half (54 percent) of the low income homeowners in the state's metropolitan areas spent over half of their income for housing in 1997.
- Households headed by white Californians are significantly more likely to own their own homes than are households headed by African-Americans, Asian/Pacific Islanders, or Latinos. This is true even controlling for differences in household income. While 62 percent of the state's white-headed households were homeowners in 1999, fewer than half (42 percent) of the state's Latino-headed households owned their own homes, along with 54 percent of Asian/Pacific Islander headed households and 40 percent of African-American-headed households.
- California's high home prices make it difficult for renters to become homeowners. The income needed to purchase the median priced home is more than twice the income of the state's median renter household ($27,401 in 1998). Fewer than one out of twenty new homes sold in 1999 were affordable to households with incomes at or below the median for California renter households. Moreover, the high cost burden experienced by many renter households makes it difficult to accumulate the savings needed for a downpayment on a home, closing costs, and other costs associated with home purchase.

Overcrowding Worsens as Housing Costs Rise

- The prevalence of overcrowding nearly doubled between 1980 and 1990, and has worsened in the last decade. In 1997, 13 percent of renter households in the state's metropolitan areas lived in overcrowded conditions. Statewide statistics, however, mask significant regional variations. In 1997, nearly one out of every six (16 percent) renter households in Los Angeles County lived in overcrowded or severely overcrowded conditions.
- The single most significant factor associated with overcrowding is the presence of children in a household. In 1995, 40 percent of the state's children lived in renter households that were overcrowded and one of out six lived in severely overcrowded households. Not surprisingly, large families are especially likely to live in overcrowded housing.
- Approximately two-thirds of the state's overcrowded households, and three-quarters of the state's severely overcrowded households, are Hispanic. Nearly a third (29 percent) of Hispanic renter households in metropolitan areas were overcrowded in 1997. While overcrowding is a minimal problem for the state's homeowners overall — just three percent of owner households in metropolitan areas were overcrowded in 1997 — 14

percent of Hispanic homeowner households were overcrowded.

Lack of Housing Limits Families' Ability to Leave Welfare for Work

- A geographic mismatch between high employment growth areas and affordable housing limit welfare recipients' access to jobs. The wages typically earned by those transitioning from welfare to work are insufficient to offset increased housing costs in areas where employment opportunities are better.
- Current levels of cash assistance severely limit families' housing options. Based on current Fair Market Rents, families relying on CalWORKs, the state's cash assistance program for poor families, pay over 60 percent of their grant toward housing in all California counties. California's welfare recipients are also less likely to receive federal housing assistance than are welfare recipients in other states. In 1997, only 13 percent of families receiving AFDC received federal housing subsidies, compared to 23 percent for the nation as a whole. In fact, California ranks 49th among the 50 states, with only Michigan having a lower share of welfare recipients receiving housing assistance.

While Seniors are More Likely to Own their Own Homes, Senior Renters Face Significant Cost Burdens

- While the housing cost burdens of seniors who own their own homes are modest in comparison to other Californians, a third of senior homeowners pay over 30 percent of their income for housing. Seniors who rent face significant cost burdens, with 65 percent paying in excess of 30 percent of their incomes for rent and 41 percent paying more than half of their incomes for rent. The high rent burden poses a significant problem for seniors since they are more likely than younger renters to be living on a fixed income. An elderly or disabled SSI/SSP recipient would spend over half of his or her income for a studio apartment in 39 of the state's 58 counties.

Three Factors are at the Heart of California's Housing Crisis

- Between 1990 and 1999, building permits were issued for an average of 110,581 units of housing each year. In contrast, permits were issued for an average of 215,585 units per year during the 1970s and 203,369 units per year during the 1980s. Multifamily housing accounts for the majority of the state's production gap, particularly housing that is affordable to lower income families. During the 1980s, for example, California added an average of 91,682 units of multifamily housing per year, 45 percent of the new housing built. Between 1990 and 1999, the state added an average of 28,089 units per year of multifamily housing, just 25 percent of total housing built during the decade and a 69 percent drop from the levels of the 1980s.
- Job growth has exceeded housing growth in nearly every part of the state since the economic recovery began in earnest in 1994. The number of new jobs exceeded the number of new housing units in all but 12, primarily rural, California counties between 1994 and 1998. The state as a whole added 3.9 jobs for each new unit of housing, more than twice the 1.5-to-1 ratio recommended by housing policy experts.
- California's system of local government finance limits the amount of revenue generated by housing and encourages local communities to favor sales tax generating retail development over residential or other forms of commercial development. The importance of sales tax revenue in relation to other revenue sources is generally cited as the main force driving what has become known as the fiscalization of land use. The added cost of

paying for facilities that were once shared across the entire community increases the cost of housing, pushing homeownership further out of the reach of young families and others of modest means.

Housing Assistance at Federal Level Fails to Meet California's Needs

- Federal support for housing has declined since the 1970s. Modest increases over the past two years will be inadequate to meet California's needs. Nationwide, approximately one in four eligible households receives any federal housing assistance. The proportion of eligible households receiving assistance is even lower in California than in the nation as a whole. California received fewer federal housing assistance dollars in 1999 for each individual living below the federal poverty level than all but one of the ten largest states. While the federal government spent, on average, $286 on housing assistance for each person in poverty, California received only $171 per person in poverty.
- Demand for federally-support assistance is intense. A recent survey of twenty local housing authorities found 371,740 families were on waiting lists for Section 8 assistance, more than three times the 104,133 families receiving assistance. The survey found 93,632 families wait listed for 25,268 units of public housing.
- A significant fraction of the state's federally subsidized housing units are reaching the expiration dates of their contracts to maintain affordability, putting a significant fraction of California's affordable housing stock at risk of conversion to market rate housing as landlords allow these contracts to expire. In the past three years, California has lost more than 15,000 affordable housing units to opt-outs and prepayments, a total of 11 percent of the federally assisted inventory, with most of the losses occurring in Los Angeles, Orange, San Diego, and Santa Clara Counties. The state Department of Housing and Community Development estimates that more than 180,000 units may be at risk of conversion from affordable to market rents over the next decade.

State Support for Housing: From Leader to Laggard

- Over the last decade, California has gone from being a leader of innovative state housing policy to a laggard. During the late 1980s, California implemented a series of innovative housing programs and provided substantial funding for its housing efforts. Among the state's signature initiatives were creation of the first state housing trust fund in 1985; creation of a state supplement to the federal low income housing tax credit in 1987, and passage of three affordable housing bonds in 1988 and 1990.
- State housing spending dropped substantially during 1990s from 0.7 percent of total spending in 1990-91 to 0.2 percent of total spending in 1999-00. During the early 1990s, bond proceeds supported a substantial investment in affordable housing. However, as these funds disappeared only minimal state support was allocated to take their place. While the 1999-00 budget include several modest initiatives, the absolute number of dollars allocated to housing and related programs is less than half that of decade ago.

California Needs a Renewed Commitment to Affordable Housing

Public policies — at all levels of government — can play a significant role in addressing the state's current housing crisis:

- ***Increase the Federal Government's Commitment to Housing.*** A renewed federal commitment to affordable housing including additional financial support is essential to solving California's housing crisis.

- ***Use Existing Resources for Affordable Housing More Effectively.*** While additional resources are clearly needed to address the crisis, more housing could be built by using existing resources more efficiently. Steps that could be taken include targeting redevelopment funds to worst case needs and ensuring the housing set-asides are spent on a timely basis; increasing coordination and collaboration between the state's multiple housing programs; enforcing local "fair share" requirements to ensure that local communities meet the demand for housing at all income levels; and reforming the structure of local government finance to minimize the fiscal disincentives to residential development.
- ***Increase State Support for Housing.*** California's affordable housing crisis will only be addressed through an increased commitment of public resources. The state's strong fiscal condition offers the opportunity to make a major investments that will benefit California's families and communities in the decades to come. Potential sources of state support include: increased support through the annual budget; using one time moneys to endow the state's housing trust fund; and placing an affordable housing bond measure before state voters.

I. Introduction

California's booming economy has created an affordable housing shortage of crisis proportions. In some parts of the state, housing at any price is in short supply. Rather than helping to make housing affordable, the strong economy has exacerbated the state's housing problems by pushing costs upward for both renters and homebuyers. The magnitude of the current crisis is such that economists now identify the cost and supply of housing as one of the primary limitations to continued economic growth.

The magnitude of California's housing crisis is making national headlines:

- In January 2000, a front page story in the *Washington Post* noted that "The whole meaning of 'affordable housing' is being turned on its head in California. Where once the term was a euphemism for public or government-subsidized housing for lower-income people, the question now is whether folks earning middle-income salaries can afford to buy a home in the communities where they work."[1]

- In February 2000, the *New York Times* described the poverty and blight plaguing suburban northeastern San Fernando Valley. The story noted how low incomes and high housing costs have led to widespread overcrowding, including one case where 10 people each pay $100 per month for the right to live in an old Airstream trailer.[2]

- Both the *New York Times* and the *Washington Post* featured articles on the Silicon Valley in February 2000. The *Times* found that "…more and more working people are becoming homeless: 34 percent of the estimated 20,000 homeless people in Santa Clara County in 1999 had full-time jobs, up from 25 percent in 1995… More teachers, police officers, firefighters, commissioned sales people – all people who make more than $50,000 a year and would be comfortably middle-class in many other places – are seeking the services of area homeless shelters."[3]

California's housing crisis has serious implications for the families affected, for the communities in which they live and for the overall well-being of the state's economy. Many of the connections between housing and other issues are frequently overlooked, but they include:

The housing crisis threatens to undermine the continued growth of California's economy. The housing crisis in Silicon Valley, the engine of much of the state's economic growth, has reached epic proportions. Many businesses report problems attracting employees from other parts of the state or the country because of the high cost of housing in that community. In many metropolitan areas, workers who provide basic services – teachers, firefighters, secretaries – cannot afford to live in the communities where they work.

High housing costs have impacts at the community level. Rising costs are forcing many low income families from communities where they have lived for decades. In the San Francisco Bay Area, gentrification of traditionally low and working class neighborhoods is running rampant. Housing pressures are so intense that long-time residents of neighborhoods, such as San Francisco's Mission District and East Palo Alto, are being forced to move out of the neighborhoods that they have called home for generations, reducing both social and economic diversity in these areas.

The ability to obtain higher rents on the open market is leading many landlords to opt out of federal housing programs. Landlords are pre-paying mortgages and refusing to renew contracts to maintain affordability, eliminating what is frequently the only affordable rental stock, making those communities the exclusive enclaves of higher income households.

Intense housing market pressures are putting pressure on the environment. The problems of unchecked urban sprawl are by now familiar to most policymakers: gridlocked freeways, longer commute times for workers, greater air pollution, and loss of open space. But one major contributing factor to urban sprawl is the search for affordable housing. Families seeking affordable housing are being forced farther from the metropolitan core to find it. In the Bay Area, for example, the number of vehicle miles driven increased 18.6 percent between 1990 and 2000.[4] During the same period, population increased at two-thirds the pace (13.3 percent). Distant suburbs are often the only option for young families seeking to buy their first home. Yet, affordability comes at a cost: reduced time to devote to family and community as a result of lengthy commutes and the loss of prime agricultural land to development.

The housing crisis exacts a great toll on the health and well-being of families. Studies indicate that children who live in unaffordable or substandard housing are more likely than adequately housed children to suffer a variety of health problems.[5] Without affordable housing, children often lack adequate nutrition and do not arrive at school ready to learn. Also, families with high rent burdens move more frequently than those families with more affordable rents – resulting in frequent school changes for their children. Taken together, it is not surprising to learn that children with poor housing conditions perform less well in school than those with more affordable and stable housing.

The lack of affordable housing limits the ability of the working poor and those on welfare to move up the economic ladder. Housing plays a critical role in helping welfare recipients make the transition to work. The high cost of housing in the parts of the state where jobs are most plentiful may discourage welfare recipients from relocating from areas where job opportunities are more limited, but housing less costly. Surveys of welfare recipients indicate that housing problems pose substantial barriers to finding and retaining employment. One reason for this may be that after paying for housing, welfare recipients have little extra money left over to pay for child care and other expenses associated with work.

The housing crisis contributes to the continuing problem of homelessness. The lack of affordable housing contributes to the ongoing tragedy of homelessness throughout the state. While many factors, including substance abuse, mental illness, poor health status, and disabilities, can result in poverty and cause homelessness, affordable housing is at the heart of what is needed to both prevent individuals and families from becoming homeless and address the problems of those who are already living in shelters or on the streets.

This report explores the dimensions of California's affordable housing crisis. Using the most recent available data, this report attempts to identify:

- The dimensions of California's housing problems;
- The impact of the state's housing problems on low and middle income Californians;
- The causes of the current crisis;
- The variation of housing problems among regions and population groups; and
- The role public policies can play in supporting affordable housing.

II. California's Affordable Housing Crisis

Far and away, affordability is the most significant housing problem confronting California's families, followed to a lesser extent by overcrowding and substandard quality. Affordability problems affect both renters and owners and low and moderate income families. The state's affordability crisis has dramatic implications for the quality of life for millions of California households and, potentially, for the future performance of California's economy. Put simply, a very large proportion of California families — both renters and homeowners — can't afford to pay what housing costs.

Housing constitutes the single largest expenditure for most California families. While adequate shelter is fundamental to a decent life, a roof over one's head is becoming increasingly unaffordable for many California families.[6] Rising costs, fueled by the failure of supply to keep pace with demand, are pushing decent shelter out of reach for many California families. Families who are forced to pay more for shelter are often forced to cut back on the amount they spend for food, health care, and other necessities.

California's housing problems are compounded by stagnation in family incomes during the 1990s. The state's booming economy and falling unemployment rates have failed to translate into improved economic well-being for many California families. Since the mid-1980s, incomes of the bottom 60 percent of California's families have fallen after adjusting for inflation.[7] The substantial growth in the incomes of the wealthiest Californians has actually worsened the state's housing crisis, since those households have bid up the price of both homeownership and rental housing.

Renters Face the Greatest Affordability Challenge

Over four out of 10 (43 percent) of all California households rent rather than own their homes, and renters face the greatest affordability challenges. In 1997, nearly a quarter of

Table 1: Many California Renters Face Significant Housing Cost Burdens

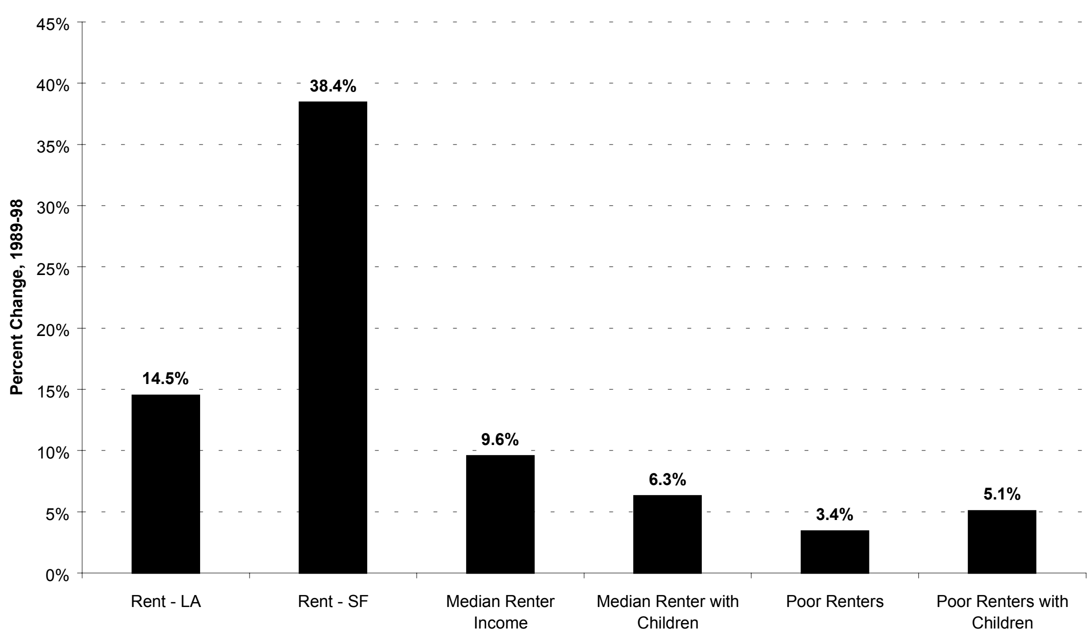
	Renters Paying Over 30% of Their Income Toward Housing		Renters Paying Over 50% of Their Income Toward Housing	
	Percentage	Number	Percentage	Number
Metropolitan California (1997)	47%	1,969,900	24%	1,001,100
Anaheim-Santa Ana (1994)	53%	178,200	24%	82,300
Los Angeles-Long Beach (1997)	51%	848,600	26%	434,100
Oakland (1998)	43%	148,100	22%	75,400
Riverside-San Bernardino (1994)	56%	166,000	29%	85,400
Sacramento (1996)	47%	101,000	21%	45,000
San Diego (1994)	55%	216,700	26%	103,000
San Francisco (1998)	42%	141,900	21%	73,000
San Jose (1998)	41%	90,600	20%	43,800

Source: US Department of Commerce, Bureau of the Census, and US Department of Housing and Urban Development, American Housing Surveys the renter households in the state's metropolitan areas (1.0 million out of 4.2 million households) spent more than half of their incomes on rent. Another 2.0 million renter households paid more than the recommended 30 percent of their incomes toward shelter.[8] All indications suggest that the situation has grown worse over the past three years.

Incomes Have Failed to Keep Pace with the Rising Cost of Housing

Over the past decade, the cost of rental housing has risen faster than inflation in the state's two largest metropolitan areas and faster than the incomes of the average California family. The rental housing component of the Consumer Price Index — the traditional measure of inflation — rose 15 percent in the Los Angeles metropolitan area and 38 percent in the San Francisco metropolitan area between 1989 and 1998. In contrast, the income of the median renter — the household exactly in the middle of the income distribution of renters — rose just 9.6 percent.[9] Renter households with children were even worse off — their median income rose by just 6.3 percent between 1989 and 1998.

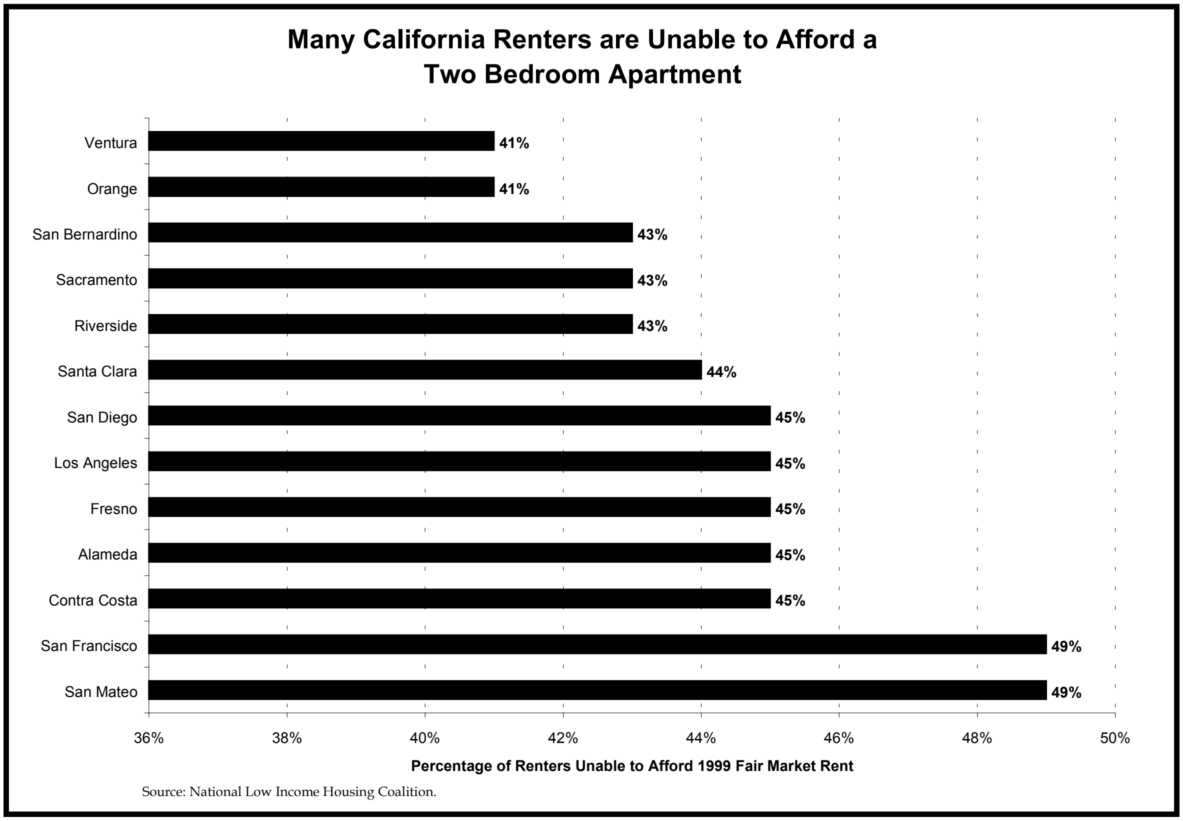
Rents Outpace Household Incomes



Source: CBP analysis of the Current Population Survey. Poor households are those at the 20th percentile.

As a result of rising housing costs, many Californians can no longer afford to live where they work. In Santa Clara County, where housing costs have skyrocketed with the emergence of the "dot.com" economy, the 2000 Fair Market Rent (FMR) for a two bedroom apartment is $1,221, a level that is only affordable to families earning at least $48,840 per year — more than the earnings from four full-time minimum wage jobs or almost two full-time jobs at the state's median 1998 hourly wage of $11.96.[10]

Statewide, 45 percent of California renters were unable to afford the FMR on a two bedroom apartment in 1999.[11] Even in areas where housing costs less, lower incomes make rents unaffordable. In the rural counties that constitute the state's most affordable housing markets, where the FMR for a two bedroom apartment is $483 per month, a full-time worker would need to earn $9.28 per hour to afford the rent — 161 percent of California's minimum wage.[12]



Low Income Renters Face the Largest Challenges

Affordability problems for renters become more severe as incomes decline. Nearly two-thirds (65 percent) of low income renters in the state's metropolitan areas paid more than half their income for housing in 1997 and 86 percent spent over the recommended 30 percent of their income on housing.[13] The rent burdens faced by low income households in the seven California metropolitan areas covered by the Census Bureau's American Housing Survey all ranked within the top 12 of the 45 metropolitan areas surveyed during the mid-1990s.[14]

The number of Californians in need of affordable housing far outstrips the supply of low cost units. In 1997, the number of low income renter households in the state's metropolitan areas exceeded low cost rental units by 2.1-to-1, a gap of 684,000 units.[15] In Orange County, low income renters outnumbered low cost rental units by more than 4-to-1. In Los Angeles County, the number of low income renters exceeded the number of low cost units by 2.3-to-1.

The American Dream of Homeownership: Out of Reach for Many Californians

For many families, homeownership represents the American dream. Economically, owning a home has been the principal source of wealth creation for millions of working and middle-class families. Yet, many Californians are locked out of this dream by the state's high cost of housing. While slumping home prices during the recession made ownership more affordable during the early 1990s, the recovery has sparked rising home prices which, coupled with rising interest rates, have pushed ownership out of reach for a growing number of Californians.

Table 2: Low Income Renters Outnumber Affordable Units in California				
	Number of Low Income Renters	Number of Low Cost Rental Units	Shortage of Low Cost Rental Units	Ratio of Low Income Renters to Low Cost Units
Metropolitan California (1997)	1,287,400	603,400	684,000	2.1-to-1
Anaheim-Santa Ana (1994)	55,600	12,000	43,600	4.6-to-1
Los Angeles-Long Beach (1997)	535,000	237,200	301,400	2.3-to-1
Oakland (1998)	84,500	36,800	47,700	2.3-to-1
Riverside-San Bernardino (1994)	110,600	47,900	62,700	2.3-to-1
Sacramento (1996)	56,200	27,200	29,000	2.1-to-1
San Diego (1994)	112,000	50,500	61,500	2.2-to-1
San Francisco (1998)	75,200	39,400	35,800	1.9-to-1
San Jose (1998)	34,400	15,100	19,300	2.3-to-1

Low income renters are defined as those with households incomes under $15,000 per year. Low cost rental units are those that rent for less than $400 per month.

Source: US Department of Commerce, Bureau of the Census, and US Department of Housing and Urban Development, American Housing Surveys

Table 3: Who are California's Renters?	
Percentage of Households Who are Renters:	
All California households	43%
White	36%
African-American	59%
Asian/Pacific Islanders	44%
Latino	57%
Percentage of all households with children that rent	46%
Percentage of seniors that rent	20%
22% of California renters lived in households with incomes below the federal poverty line in 1998	
47% of California renter households pay over 30% of their incomes for housing	
California's metropolitan areas have a shortage of 684,000 low cost ($400 or month or less) rental housing units	
Median income of renter households	$27,401
Median income of renter households with children	$25,322

Source: CBP analysis of American Housing Survey and Current Population Survey data

Market Rents are Higher than Fair Market Rents

Many public programs use Fair Market Rents (FMRs) as a measure of housing costs. FMRs are published annually by the federal Department of Housing and Urban Development (HUD). FMRs are used to determine the maximum subsidy that can be provided through the Section 8 and a number of other federal housing programs. FMRs estimate the cost of rent and utilities, other than telephone service. FMRs are currently set at the 40th percentile within an area. In other words, the FMR is the cost below which 40 percent of the housing units in an area would rent for less and 60 percent would rent for a higher amount. FMRs are based on the rents paid by households that have moved within the past 15 months.

Analysts continue to use FMRs as a standard for a number of reasons. First, they are available for every county. Second, HUD publishes FMRs annually, using a well-documented methodology. Market rent surveys are produced by private vendors and cover larger apartment complexes.

The California Budget Project compared 1999 FMRs to survey data produced by REALFACTS, a widely used private database research service, for September 1999. The FMR for a two bedroom unit was below the market rent in 12 of the state's 16 largest counties. In Los Angeles County, the difference was significant. The 1999 FMR for a two bedroom unit was $749, while in September 1999 the average rent for an apartment with two bedrooms and one bathroom was $881, a gap of $132 or 18 percent. Among the 12 counties where market rents exceeded FMRs, the disparities for two bedroom apartments ranged from a low of 4 percent in San Joaquin County to a high of 75 percent in San Francisco. In recognition of the gap between the FMRs and market rents, HUD recently made a special adjustment to the 2000 FMR for San Francisco. This adjustment increased the FMR for a two bedroom unit from $1,362 to $2,043.

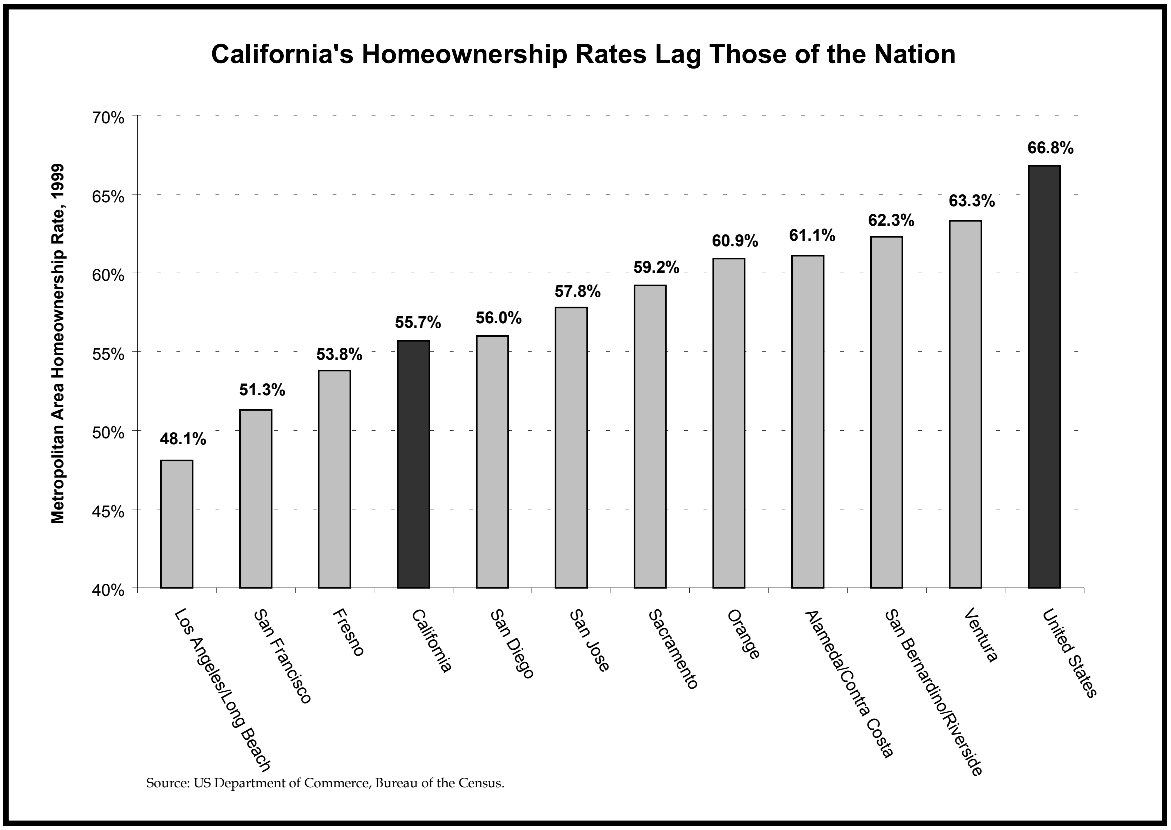
The disparity between FMRs and market rents is important. When FMRs are significantly below market rents, recipients of Section 8 certificates, which can be used to rent a unit in the private market, have a difficult time finding a landlord willing to accept their certificate. In areas with particularly tight rental housing markets and rapidly escalating prices, FMRs are likely to underestimate the amount families must pay in order to rent an apartment and underestimate the level of assistance needed to make housing affordable.

Fair Market Rents as Compared to Market Rents

COUNTY	1999 Fair Market Rents	September 1999 Market	Dollar Difference	Percentage Difference
Alameda	$861	$1,056	$195	23%
Contra Costa	$861	$953	$92	11%
Fresno	$506	$459	$(47)	-9%
Kern	$515	$505	$(10)	-2%
Los Angeles	$749	$881	$132	18%
Orange	$871	$940	$69	8%
Riverside	$597	$677	$80	13%
Sacramento	$631	$629	$(2)	0%
San Bernardino	$597	$703	$106	18%
San Diego	$729	$819	$90	12%
San Francisco	$1,167	$2,043	$876	75%
San Joaquin	$592	$617	$25	4%
San Mateo	$1,167	$1,394	$227	19%
Santa Barbara	$878	$816	$(62)	-7%
Santa Clara	$1,139	$1,330	$191	17%
Ventura	$793	$932	$139	18%

Source: RealFacts (September 1999) and US Department of Housing and Urban Development

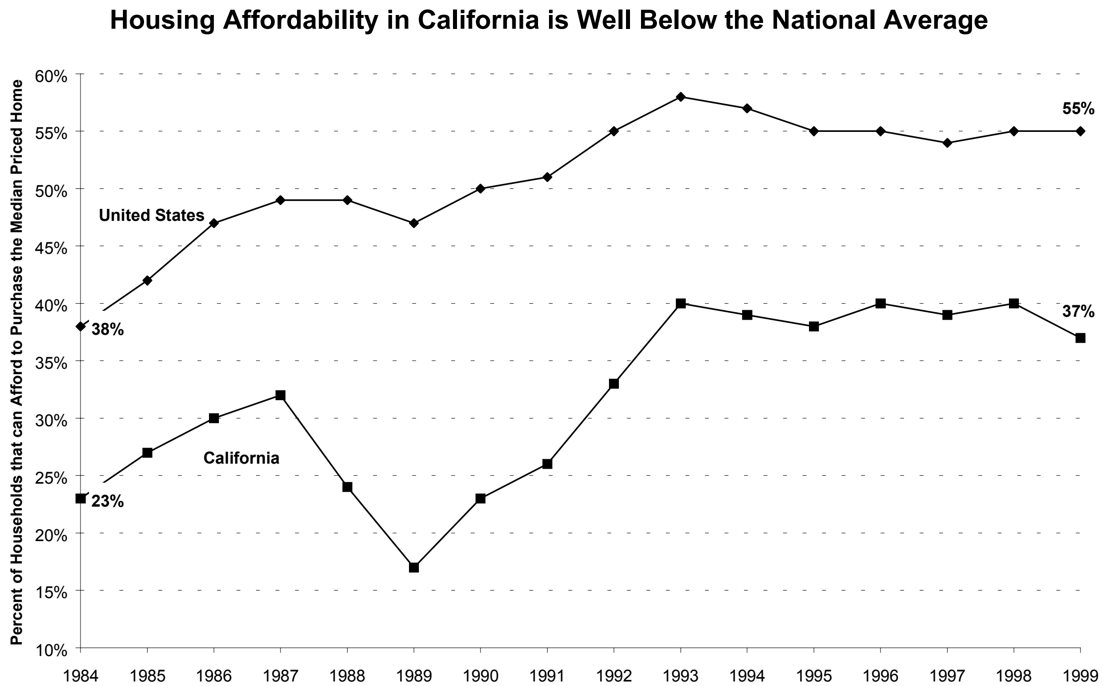
Despite a booming economy, California's homeownership rate is the second lowest in the nation; only New York has a lower percentage of homeowners. Only 55.7 percent of California households owned their own homes in 1999, compared to 66.8 percent for the nation as a whole.[16] More than 1.3 million renter households would need to buy homes in order for California's homeownership rate to match that of the nation. Ownership rates are even lower in most of the state's metropolitan areas. Just 48.1 percent of Los Angeles County households and 51.3 percent of San Francisco metropolitan area households own their own homes.[17]



Fewer Californians Can Afford to Buy a Home

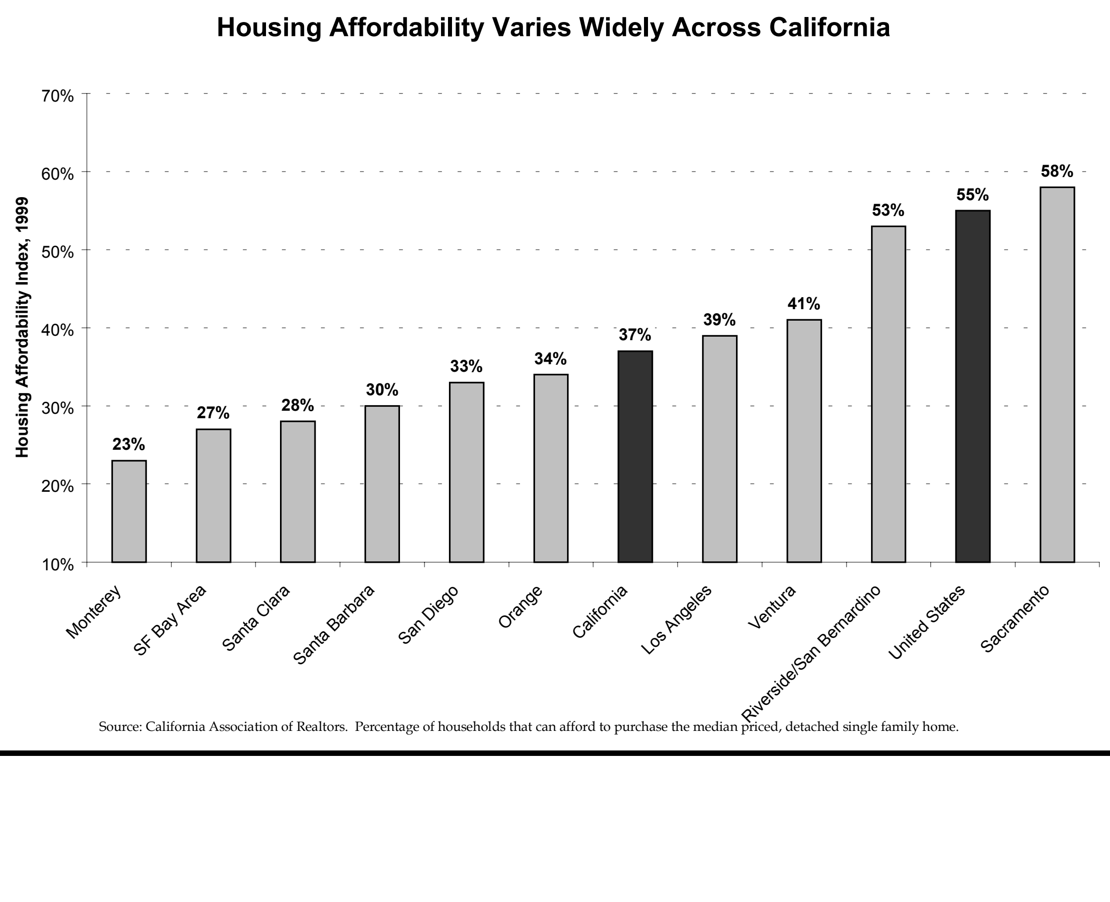
The state's homeownership rate is low because fewer Californians can afford to buy a home. Nationally, 55 percent of households could afford to purchase the median priced home in 1999, as compared to 37 percent of California households.[18] While the affordability of homeownership remained constant between 1998 and 1999 for the nation, the share of California households able to afford the median priced home dropped three percentage points during the same period. Moreover, affordability in many California metropolitan areas lags far behind the state rate; only 27 percent of households can afford the median priced home in the Bay Area, and even fewer (23 percent) can afford the median priced home in Monterey.

In fact, there is a substantial mismatch between the incomes of California households and the cost of buying a home. The share of homes affordable to those at the median income is considerably below the national average in all of the metropolitan areas examined. In



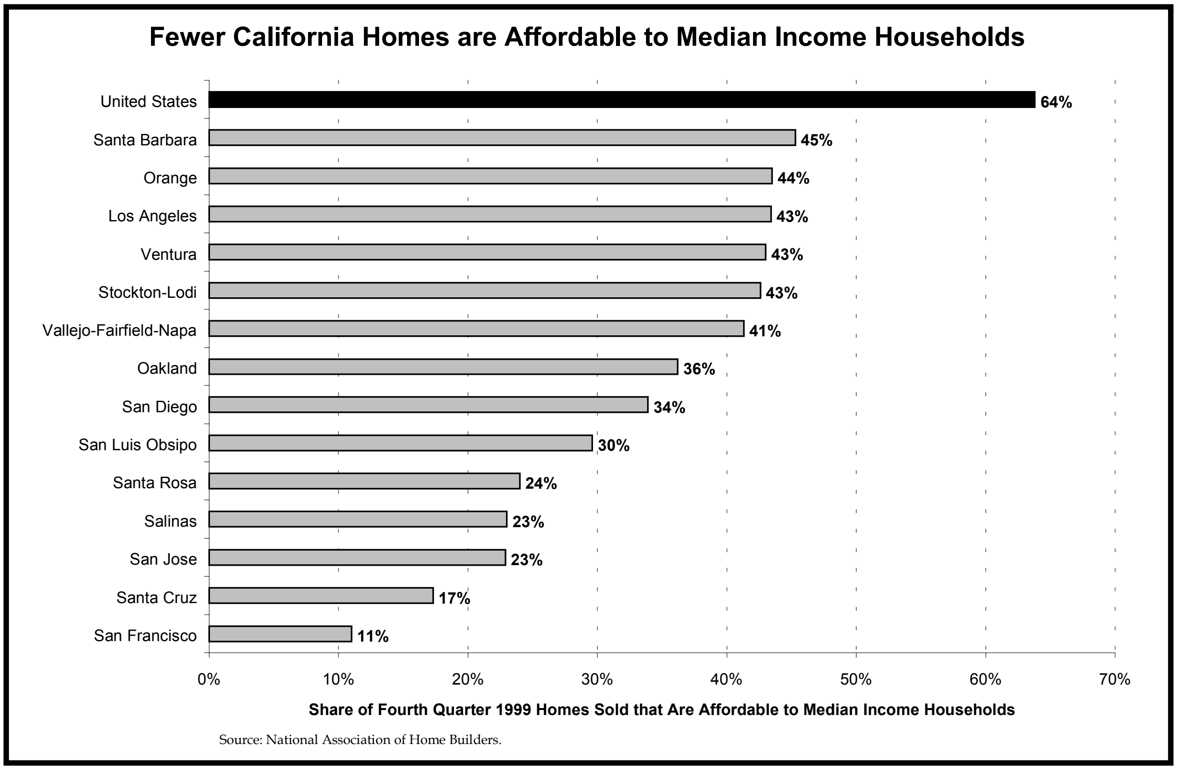
Source: California Association of Realtors.

California, the share of homes affordable to median income households ranged from 45 percent in Santa Barbara to only 11 percent in San Francisco.[19] The income needed to purchase the median priced home ($63,532) far exceeds the income of the median California household ($40,934 in 1998).[20] In other words, the median California household earns less than two-thirds the income needed to purchase the median priced home.



Source: California Association of Realtors. Percentage of households that can afford to purchase the median priced, detached single family home.

The National Association of Home Builders found that eight of the nation's ten least affordable housing markets in the fourth quarter of 1999, and 14 of the top 25, were in California.[21] Overall, these 14 markets accounted for more than two-thirds (72 percent) of the state's total population. The least affordable markets include virtually all of California's coastal metropolitan areas from Santa Rosa to San Diego. Surprisingly, the Stockton-Lodi metropolitan area also was included among the 25 least affordable metropolitan areas. The Merced, Chico, Sacramento, and Yolo metropolitan areas also ranked among the nation's 50 least affordable areas.



Due to the high cost of housing in many parts of the state, many families cannot afford to live in the communities where they work. This is true even for workers in jobs that form the backbone of communities, such as teachers, firefighters, and health care workers.

Young Families are Least Likely to Own a Home

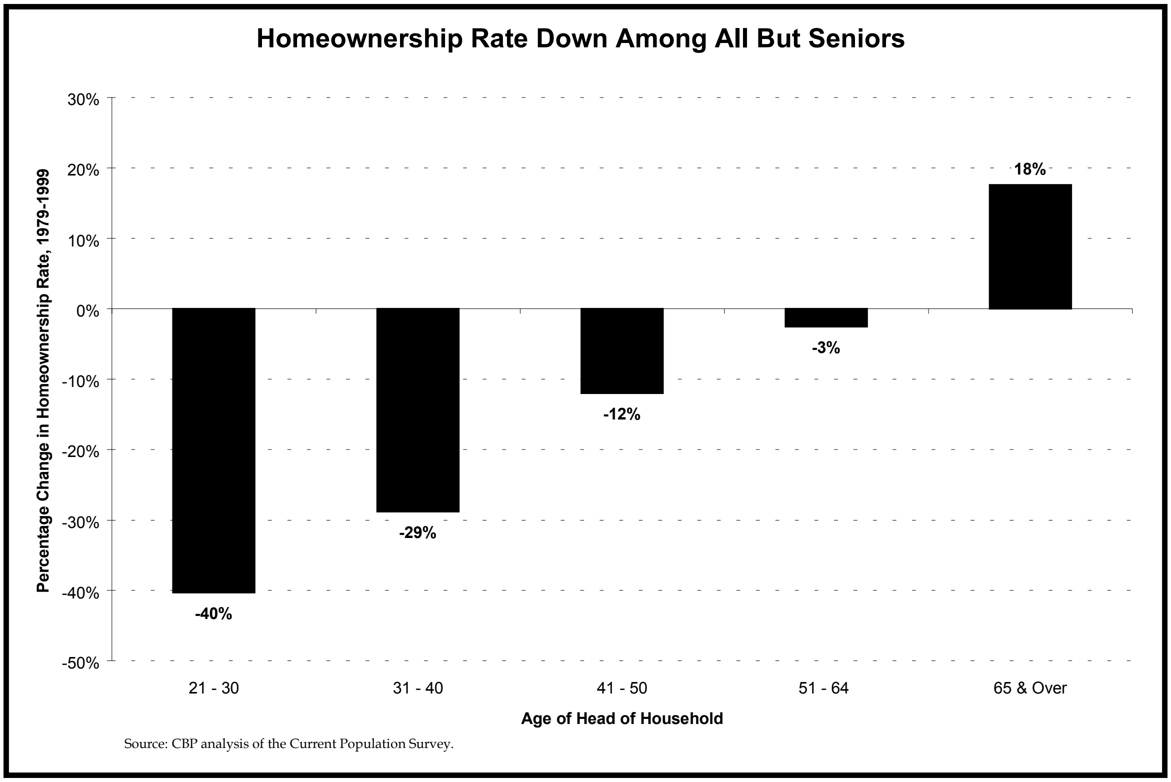
The composition of California's homeowners has changed dramatically over the past two decades. Young families — those headed by individuals in their twenties and thirties — are dramatically less likely to be homeowners than they were two decades ago.[22] The share of owner households headed by individuals in their twenties dropped by 40 percent between 1979 and 1999 (from 31 percent to 18 percent). The share of owner households headed by individuals in their thirties dropped 29 percent (from 61 percent to 44 percent). In fact, homeownership rates are down among all age groups except for households headed by seniors.

The decline in homeownership rates among young families is significant. Home equity constitutes the largest single source of wealth for American families.[23] Young families who

Table 4: How Much Does a Household Need to Earn in Order to Afford Decent Housing?					
	Income Based on Mean Annual Wage	**Can Afford to Pay Monthly**	**Can Afford to Purchase Home Priced**	**Compare to:**	
Fire Fighter & Secretary	$70,080	$1,752	$244,302	$256,000	Median Northridge Home Price
Desk Clerk & Nursing Aide	$34,730	$868	$121,036	$881	Market Rent for a Two Bedroom Los Angeles County Apartment
2 Minimum Wage Workers	$23,920	$598	$83,386	$785	Market Rent for a One Bedroom San Diego County Apartment
Elementary School Teacher	$44,420	$1,111	$154,920	$198,000	Median Tracy Home Price
Two Retirees on Social Security	$15,600	$390	$58,565	$423	Market Rent for a One Bedroom Fresno County Apartment
Automotive Mechanic & Part-Time Retail Salesperson	$43,345	$1,084	$151,155	$148,000	Median Rancho Cucamonga Home Price
Delivery Truck Driver & Electronic Equipment Assembler	$47,930	$1,198	$167,047	$220,000	Median Hayward Home Price
Computer Engineer & Social Worker	$102,780	$2,570	$358,365	$400,000	Median Sunnyvale Home Price
Janitor & Part-Time Food Service Worker	$24,900	$623	$86,873	$1,939	Market Rent for a 2 Bedroom San Francisco Apartment
1998 Median Renter Household	$27,401	$685	$95,518	$940	Market Rent for a Two Bedroom Orange County Apartment
State Median Home Price 1999		**$221,520**			
State Fair Market Rent 1999 (2BR)		**$775**			

Note: Home purchase calculations assume 30-year conventional mortgage at 8.3% interest with a 5% down payment and sufficient savings to pay closing costs.

Sources:
Occupational Employment & Wage Data 1998, EDD
Fannie Mae Homepath Calculator, http://www.homepath.com
CA Association of Realtors, "Median Home Price Rose 15.7 Percent in January, Home Sales Declined 11.2 Percent, CAR Reports," 2/9/00, downloaded from http://www.car.org/newsstand/news/feb00-0.html on April 27, 2000
National Low Income Housing Coalition, "Out of Reach 1999," http://www.nlihc.org



are locked out of homeownership are limited in their ability to accumulate wealth and savings that can be used to help finance their retirement, a child's education, or other major investments.

Low Income Owners Experience Significant Housing Cost Burdens

California's low income homeowners experience significant housing cost burdens. A majority (54 percent) of the low income homeowners in the state's metropolitan areas spent over half of their income for housing in 1997.[24] An additional 22 percent spent more than 30 percent of their income on housing. The high cost burden places many households at risk of losing their homes. Loss of employment or a medical emergency could leave a family unable to make their mortgage payment and subject to foreclosure. Many higher income households experience housing cost burdens, as well. In 1997, nearly a third (30 percent) of metropolitan area homeowners paid more than 30 percent of income for shelter. One out of ten metropolitan area homeowners (12 percent) spent over half of their income on housing.

Housing Prices Rise Rapidly as the Economy Recovers

Rising housing costs are pricing many families out of the market. Between 1995 and 1999, the median price of a single family home rose 24 percent for the state as a whole.[25] This figure, however, understates even more substantial increases in a number of markets. Santa Clara County prices rose by more than half (56 percent) between 1995 and 1999, to $399,380. Orange County home prices rose by 34 percent between 1995 and 1999, from $209,400 to $365,260. In terms of affordability, the rising cost of housing translates into a $41,336 increase in the annual income needed to purchase the median Santa Clara County home or a $20,665 increase to purchase the median Orange County home.[26]

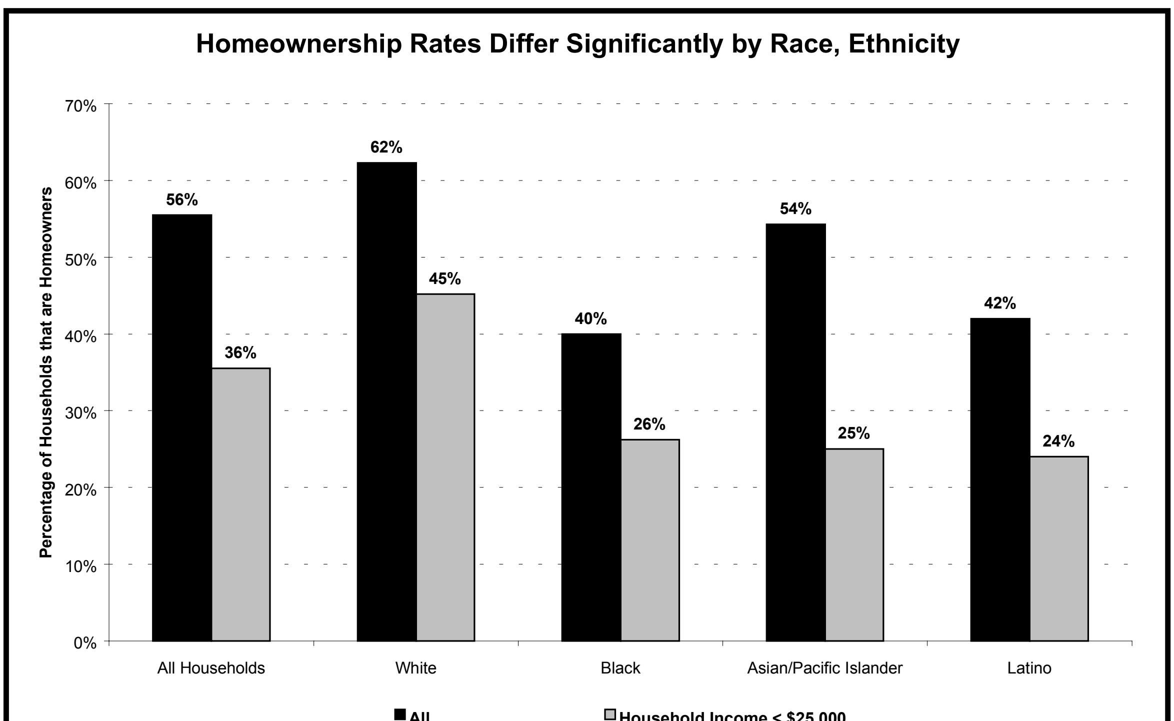
Rising Prices Translate into Significant Affordability Burdens

Most of the new homes built in California are out of reach to the "average" California family. The mismatch between home prices and family incomes locks many families out of the market and forces others to spend a disproportionate share of their income for housing. Over half (58 percent) of the new homes purchased in 1999 sold for over $200,000. In contrast, just over a third (35 percent) of California households could afford to purchase these homes using traditional measures of affordability.

Significant Disparities in Homeownership Exist Between White, Nonwhite California Families

Households headed by white Californians are significantly more likely to own their own homes than are households headed by African-Americans, Asian/Pacific Islanders, or Latinos. This is true even controlling for differences in household income. While 62 percent of the state's white-headed households were homeowners in 1999, fewer than half (42 percent) of the state's Latino-headed households owned their own homes, along with 54 percent of Asian/Pacific Islander headed households and 40 percent of African-American headed households.[27]

Differences in household income account for some, but not all, of the disparities in ownership rates between white and nonwhite Californians. Among households earning less than $25,000 per year, 45 percent of white households were homeowners, while approximately three-quarters of nonwhite households were renters. Research shows non-white buyers confront significant discrimination in trying to purchase and finance a home.[28]



Source: CBP analysis of the Current Population Survey.

Mortgage Lending Discrimination

Mortgage lending discrimination contributes to differential home ownership rates between white and nonwhite Americans. Research shows that even after controlling for income and credit histories, minorities are disadvantaged in the housing market by unequal treatment from mortgage lenders.

The problem is widely recognized. A 1999 HUD study found that "minority homebuyers in the United States do face discrimination from mortgage lending institutions…" The report explains, however, that mortgage lending discrimination is extremely difficult to measure, due to several factors: the lending process is complex, different types of discrimination can occur at different phases, and statistical measurements differ from legal evidence of discrimination. Measurement difficulties are illustrated by the fact that not only did many institutions fail to realize that their practices were discriminatory, they actually prided themselves on working with applicants who needed extra assistance. Nevertheless, the report found that nonwhite loan applicants generally received less information and time from loan officers and were usually quoted higher interest rates than white applicants. Racial disparities in loan denial rates, moreover, could not be explained away by differences in creditworthiness.

Different types of discrimination occur. The HUD report identified two types of discrimination in the lending process. "Differential treatment" discrimination occurs when equally qualified individuals are treated differently due to race or ethnicity, while "disparate impact" discrimination takes place when a lending policy (such as minimum loan amounts) disqualifies a larger share of racial or ethnic minorities than whites. The report concluded that both types of discrimination could be reduced by providing lending institutions with effective tools to monitor and assess their own anti-discrimination efforts, as well as implementing anti-discrimination incentives and diversity training in all lending institutions.

Lenders "prey" upon hard-to-qualify applicants. An analysis conducted in Sacramento, California, by the Association of Community Organizations for Reform Now (ACORN) focused upon discriminatory lending practices experienced by nonwhite borrowers. The ACORN studies found that rejection rates for conventional loans are not only higher for minorities, but have steadily risen since 1995. Consequently, ACORN argues, many of these individuals are forced to obtain non-conventional loans. This phenomenon is known as "predatory lending," because non-conventional loans often charge very exorbitant interest rates and high closing costs. The report recommends strengthening the federal Community Reinvestment Act, expanding disclosure requirements on lending institutions, and enforcing civil penalties against violators of fair lending laws.

Disproportionate concentration of subprime lending in poor, predominantly African-American neighborhoods. A new HUD study finds that "there has been monumental growth in subprime lending since 1993, suggesting that a significant number of Americans need greater access to the prime lending market," particularly in light of growing evidence of predatory practices in the subprime market. The problem of subprime lending has increased with the number of subprime refinance loans, increasing tenfold from 1993 to 1998. Moreover, the impact is concentrated in low income communities. HUD found that subprime loans are three times more likely in low income neighborhoods and five times more likely in predominantly African-American neighborhoods — even high income African-American neighborhoods. The report argues that five in ten families in African-American communities suffer higher rates and costs due to the prevalence of subprime lending in these neighborhoods.

While it is clear that minorities have a harder time obtaining mortgage loans than white applicants, it is difficult to determine how much of this is due to income disparities and how much is due to race or ethnicity. This difficulty in defining the problem hinders efforts to formulate effective solutions. Potentially important steps, however, include aggressive investigation and prosecution of discriminatory practices, expanded diversity training, and implementation of aggressive minority lending goals combined with effective monitoring and reporting.

Significant Assistance will be Needed to Turn California's Renters into Homeowners

California's high home prices make it difficult for renters to become homeowners. The income needed to purchase the median priced home is more than twice the income of the state's median renter household ($27,401 in 1998). Most of the new housing built in California is aimed at higher income households and the share of housing affordable to low income families is minimal.[32] Fewer than one out of twenty new homes sold in 1999 were affordable to households with incomes at or below the median for California renter households. Moreover, the high cost burden experienced by many renter households makes it difficult to accumulate the savings needed for a downpayment on a home, closing costs, and other costs associated with purchasing a home.

Bringing ownership within reach of renter households will require a significant shift in the type of housing built in California, along with innovative approaches to assisting low income families who wish to purchase their own homes. The experiences of programs that target low income families suggest that ownership brings stability to low income families and communities. A survey of families who became owners through self-help housing programs found that these families owned their homes as long or longer than California homeowners as a whole and that over two-thirds of families who built their homes in the early 1970s remained there 25 years later.[33]

Making Homeownership a Reality for Low Income Families

One of California's greatest housing policy challenges is how to make home ownership affordable for lower and, in many parts of the state, middle income families. California's high cost of housing creates two barriers for families seeking to become homeowners. First, due to the high cost of rent, many families are unable to save for a downpayment. Second, monthly mortgage costs are out of reach for many families. In 1999, less than a quarter of the homes sold were affordable for the median income household.

California's strong network of nonprofit housing developers has utilized a number of strategies to make home ownership affordable for low income families.

Self-Help Housing

Self-help housing enables low income families to achieve homeownership by helping them to build their own homes. Self-help housing programs are open to families who are willing to invest 1,200 to 1,500 hours of "sweat equity." Family members typically work part- or full-time jobs and spend an additional 40 hours per week constructing their homes. Homes generally take about 12 weeks to complete. Approximately a dozen nonprofit housing programs operate throughout the state, primarily in rural areas.

The oldest and largest sweat equity housing program, run by Self-Help Enterprises (SHE) in Visalia, helps build 150 homes per year. SHE acquires the land, subdivides it into lots, and often builds streets, curbs, and gutters. Then, through loans provided by the US Department of Agriculture (USDA), families buy the lots and finance the construction materials. Groups of eight to ten families work together to build their homes, with the assistance of construction supervisors provided by SHE. Once the homes are completed, the USDA construction loans are converted into long-term mortgage loans, with rates as low as one percent (depending upon the family's income).

Fewer self-help housing programs operate in urban areas, where land is more costly. Those that do typically receive state support through technical assistance grants provided by the Department of Housing and Community Development (HCD) and low-interest loans administered by the California Housing Finance Agency (CHFA).

Bayporte Village

The Bay Area's high cost of housing makes buying a home nearly impossible for most low and many middle income families. A new development, Bayporte Village near downtown Oakland, brought together a range of public, private, and nonprofit resources to create ownership opportunities for 71 families at 60 to 80 percent of area median income. The Bayporte Village site was originally part of a local public housing project that the Department of Housing and Urban Development (HUD) sold to developers for one dollar.

The team that made Bayporte Village a reality illustrates the difficulty of building affordable housing in a high cost market. Construction financing came from loans from Bank of America; the KaiPerm Federal Credit Union; the City of Oakland; and the Local Initiative Support Corporation, a nonprofit corporation; and grants from HUD; the Fannie Mae Foundation; and the Federal Home Loan Bank's Affordable Housing Program. Two nonprofit corporations, the East Bay Asian Local Development Corporation and Oakland Community Housing, Inc., built the project. Finally, many buyers qualified for mortgages through special first-time homebuyer programs.

III. California Faces a Number of Distinct Housing Challenges

While the lack of affordable housing is the most widespread problem facing low and moderate income California families, the nature and intensity of housing problems varies significantly around the state, and certain groups of Californians experience distinct housing problems.

Housing Problems Vary Throughout the State

The diversity of the state's local economies, ranging from the booming Bay Area to the Central Valley where unemployment remains persistently high, give rise to a diversity of housing problems. Homeownership rates, land costs, prevalence of substandard conditions, and overcrowding all vary throughout the state.

Los Angeles

Los Angeles County's housing affordability problems are an outgrowth of the region's large low wage workforce. Fueled by expansion in the garment, tourism, and service industries, half of the county's new jobs pay a full-time worker less than $26,000 per year.[34] Yet, housing prices remain among the nation's highest. While public policies attempt to meet at least some of the needs of a variety of special populations, there is virtually no assistance for the "plain old poor."[35] As a result, over three-quarters (79 percent) of the county's very low income renters and nearly half (46 percent) of all Los Angeles County renters pay more than half of their incomes for housing.[36]

While home prices in the Los Angeles area have risen more slowly than in most parts of the state, they remain high in comparison to the incomes of county residents. At 48 percent, the county's homeownership rate is the lowest of the state's metropolitan areas.[37] Los Angeles also lags the rest of the state in terms of housing production as a percentage of projected need. Between 1997 and 1999, the county produced just 39 percent of the units needed to meet the demand projected in the state's 1998 housing plan update.[38] The most acute need is for low cost rental housing, where there is a 301,400 unit gap between the number of low income renter households and existing low cost rental housing units.[39]

Orange County

Orange County's affordable housing shortage is the worst in the nation. Low income renters exceed low cost rental units by a ratio of 4.6-to-1.[40] This disparity results from both a large, low wage workforce and an extreme shortage of affordable housing. Over the past several decades, the role of Orange County in the regional economy has shifted from that of a bedroom community for Los Angeles County to an economic center in its own right. An imbalance between job growth (15.3 percent between 1994 and 1998) and the county's housing stock, which increased by just 4.0 percent during the same period, has led a number of low to middle income workers and their families to move to the lower cost Inland Empire and commute to Orange County jobs.

Advocates for affordable housing identify the prevalence of "NIMBYism" (Not In My Backyard) and a general reluctance of many local communities to support affordable housing development as factors contributing to the region's housing problems. Despite the acute shortage of affordable rental housing, multifamily housing accounted for just 37 percent of the housing built during 1999.[41] The shortage of multifamily housing translates into prices that are out of reach to much of the county's workforce. A full-time worker would need to earn $17.13 an hour to afford the Fair Market Rent for a two bedroom apartment in Orange County.

The Inland Empire

Riverside and San Bernardino Counties have become the new bedroom communities for Southern California, leaving many residents with lengthy commutes to jobs in Orange and Los Angeles Counties. Lower land costs and more rapid growth in the housing stock, particularly in Riverside County, allow the Inland Empire to fill a portion of the region's housing gap. Dramatically lower home prices — the median price of a Riverside County home was approximately half that of Orange County in 1999, and San Bernardino County prices are even lower — attract many families seeking to purchase a home.[42]

While homebuyers fare relatively well, the Inland Empire has a scarcity of rental housing. Multifamily housing accounted for only one out of fourteen units issued building permits in San Bernardino County in 1999. The situation was only slightly better in Riverside County, where 14 percent of permits issued were for multifamily housing, but still lower than the statewide figure of 27 percent.[43]

One problem unique to the Inland Empire is that of vacant single family housing. The recession of the early 1990s came on the heels of a significant building boom during the late 1980s. When the economy turned down, a number of homeowners lost their homes and many remain vacant. The San Bernardino-Riverside metropolitan area vacancy rate for owner occupied housing was twice that of the state as a whole in 1999 (3.0 percent as compared to 1.5 percent).[44] Many of these units now need significant renovation and rehabilitation to become habitable. Advocates identify the need for funding as the key to return these units to the area's housing stock.

San Diego

San Diego's housing problems are characterized by a lack of affordable units for both renters and buyers. With demand outstripping supply, vacancy rates are plummeting and costs are rising. The median home price in San Diego rose by over a third (35 percent) between 1995 and 1999.[45] San Diego enjoyed relatively affordable housing, at least compared to other coastal communities, during the recession of the early 1990s. Local governments have focused on maintaining existing rental housing rather than increasing the overall number of units. Rising prices have forced many families to move farther from the urban core, and even to adjacent Riverside and San Bernardino Counties in search of affordable housing, increasing commute times and congestion on area freeways.

The Bay Area

Long one of the nation's most expensive housing markets, the rise of the "dot.com" economy has led to spiraling prices throughout the region as workers move farther afield in search of affordable shelter. San Mateo County provides the most extreme example of the region's problems. The county created 10.8 jobs for every new unit of housing between 1994 and 1998 and the average home sold for nearly $400,000 during 1999, a price that is affordable only to households earning in excess of $100,000 per year.

In San Francisco, rents have skyrocketed and gentrification has become a major problem. Commercial and high-end residential development in the South of Market area has displaced affordable housing. The rapid rise in rents has led many landlords to refuse to accept Section 8 certificates, further complicating the situation for low income families. While new construction exceeded the city's projected need between 1997 and 1999, even faster job growth has led to a situation where vacancy rates are approaching zero.[46]

"...housing problems are no longer seen as a poverty issue. With the housing crunch increasingly grinding at middle-class Californians and frustrating employers, many of the state's business leaders are joining the ranks of those calling for relief."
Los Angeles Times
March 20, 2000

Silicon Valley's housing shortfall is responsible for many of the broader region's housing troubles. Workers in search of housing are moving south to Gilroy, Salinas, and beyond, and east to the Central Valley in search of affordable shelter, creating gridlock on the region's highways and limiting the time workers have to spend with their families. In the Salinas Valley, the tremendous disparities in wealth and incomes between high tech workers and those employed in the region's traditional economic base of agriculture and tourism is pricing many families out of the market. Housing advocates note that strict growth controls, aimed at preserving the area's natural beauty and agriculture lands, limit the ability of the housing stock to keep pace with demand. In the Monterey, Santa Cruz, and San Benito County area, most new construction is aimed at the high end Silicon Valley market, leaving few options for the local workforce, renters, and particularly farmworkers, who typically earn $6 to $8 per hour. Similar issues exist in Sonoma County, where job growth in "TeleComm Gulch" has driven up housing costs and high tech exists side-by-side with agriculture.

Sacramento

While the Sacramento area economy is not booming like the Silicon Valley, neither is it falling behind like many of California's rural counties. Sacramento's unemployment rate in March 2000 was only 4.1 percent, almost a full percentage point below the state rate.[47] Housing affordability, however, has fallen over the past year, from 61 percent in February 1999 to 55 percent in February 2000.[48]

The Sacramento area's subsidized and very low income housing stock is rapidly dwindling. A disproportionate share of the area's federally assisted properties in the area is converting to market rate. A revitalization of the downtown area has squeezed out single room occupancy (SRO) hotels and the city has expressed little interest in replacing this housing within city limits. The top concern of area housing advocates is the lack of housing that is affordable to individuals and families with incomes below 50 percent of the area median ($26,450 for a family of four). Not only is housing not being built for this income group, but much of the existing stock is either in disrepair or facing rapid price increases due to low vacancy rates.

The Central Valley

Although the Central Valley enjoys some of the lowest housing prices in California, it also suffers from low incomes, low levels of education, and high unemployment. Fresno County's unemployment rate, for example, was 16.6 percent in March of this year, nearly

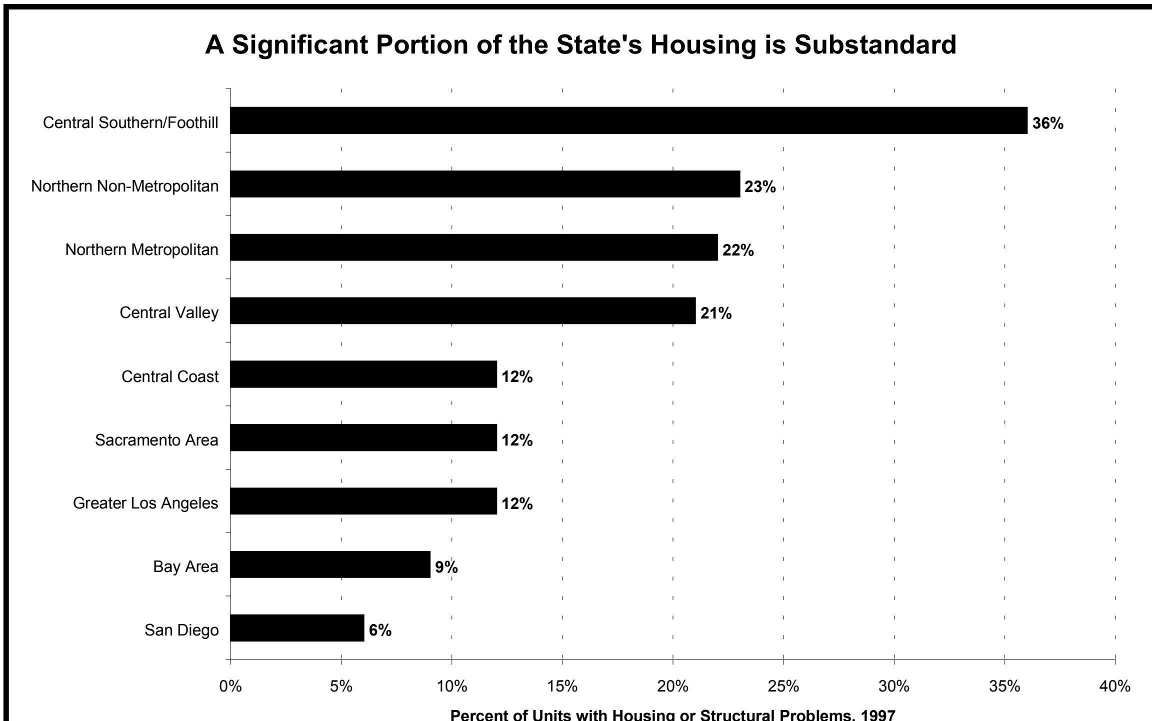
12 percent higher than the state overall.[49] Agriculture remains the region's dominant economic force and farmworkers, who make up a significant fraction of the population, have a unique set of problems, including seasonal income fluctuations, very low incomes, and a severe deterioration of existing housing stock.

Expansion in the stock of "entry-level" housing since the mid-1990s has kept prices low at the bottom end of the market. Families seeking to move up, however, face steep price increases. The median home price in the Central Valley in 1999 was $122,530, low in comparison to many other areas of the state, but 7.6 percent higher than in the previous year.[50] In February 2000, only 51 percent of Central Valley households could afford to purchase the median priced home, an eight percent drop from the same month in 1999.[51]

For Many, Housing is Not Only Costly, but also Inadequate

While not as widespread a problem as affordability, substandard conditions create serious problems for a significant number of households. Statewide, approximately one of every eight housing units (12 percent) is in substandard condition.[52] In Los Angeles County, one out of every seven rental units — 234,000 units — is substandard.[53] In rural areas, an even higher portion of the housing stock is in serious need of repair. In the foothill counties of Central California (Alpine, Amador, Calaveras, Inyo, Mariposa, Mono, and Tuolomne), an estimated 36 percent of the housing stock fails to meet basic standards.[54]

The cost of needed repairs, on top of the already high cost of housing, contributes to the prevalence of substandard housing. Low income owners, particularly in rural areas, often cannot afford the cost of rehabilitation. In urban areas, substandard housing is more likely to be rental housing. In today's tight housing markets, declining vacancy rates and rising rents mean that substandard units may be the only option for families with limited financial means.



Source: Department of Housing and Community Development.

Overcrowding Worsens as Housing Costs Rise

The prevalence of overcrowding nearly doubled between 1980 and 1990, and has worsened in the last decade. In 1997, 13 percent of renter households in the state's metropolitan areas lived in overcrowded conditions.[55] Statewide statistics, however, mask significant regional variations. In 1997, nearly one out of every six (16 percent) renter households in Los Angeles County lived in overcrowded or severely overcrowded conditions. While recent statistics are not available, anecdotal reports suggest that the boom in Bay Area housing costs has markedly increased overcrowding in Santa Clara and San Mateo Counties and in San Francisco.

The single most significant factor associated with overcrowding is the presence of children in a household. In 1995, 40 percent of the state's children lived in renter households that were overcrowded and one of out six lived in severely overcrowded households. Not surprisingly, large families are especially likely to live in overcrowded housing.

Approximately two-thirds of the state's overcrowded households, and three-quarters of the state's severely crowded households, are Latino.[56] Nearly a third (29 percent) of Latino renter households in metropolitan areas were overcrowded in 1997. While overcrowding is a minimal problem for the state's homeowners overall — just three percent of owner households in metropolitan areas were overcrowded in 1997 — 14 percent of Latino owner households were overcrowded.[57] Significantly, overcrowding increased more rapidly among Latinos than among other households between 1988 and 1995. The number of African-American households living in overcrowded conditions doubled during the same period.[58]

Lack of Housing Limits Families' Ability to Leave Welfare for Work

Many researchers believe that stable and affordable housing can improve families' ability to transition from welfare to work. A recent study of welfare recipients in four California counties found that families living in subsidized housing worked more hours and had higher earnings than families who did not receive assistance.[59] Welfare recipients' access to employment is limited by a geographic mismatch between job growth and affordable housing. The wages typically earned by those transitioning from welfare to work are insufficient to offset increased housing costs in areas where employment opportunities are better. A study of San Mateo County welfare "leavers" found, for example, found that recipients who found work in the quarter after they left welfare (60 percent) earned an average of $1,000 per month, nearly equal to the $923 per month rent for a one bedroom apartment.[60] In Madera County, the county with the smallest decline in welfare caseloads, the rent on a one bedroom apartment is just $419 per month.

Current levels of cash assistance severely limit families' housing options. Based on current Fair Market Rents, families relying on CalWORKs, the state's cash assistance program for poor families, pay over 60 percent of their grant toward housing in all California counties. The FMR for a one bedroom apartment exceeds the CalWORKs grant for a family of three in 16 of the state's 58 counties (Alameda, Contra Costa, Marin, Monterey, Napa, Orange, San Benito, San Diego, San Francisco, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Solano, Sonoma, and Ventura). California's welfare recipients are also less likely to receive federal housing assistance than are welfare recipients in other states. In 1997, only 13 percent of families receiving AFDC received federal housing subsidies, compared to 23

Welfare Reform Offers Opportunities to Increase Access to Housing

The new federal welfare law offers opportunities to extend housing assistance to families seeking to leave welfare for work. The new law allows the state or counties to provide assistance to families confronting a housing crisis if it furthers the goal of keeping the family off aid and in the workforce. The federal law governing expenditure of Temporary Assistance for Needy Families (TANF) block grant funds allows states to provide short-term assistance, such as a payment which helps a family avoid eviction, without counting the time in which assistance is received toward the five-year lifetime limits on assistance. Perhaps more significantly, the state or county can provide ongoing assistance to needy families using state and county "maintenance of effort" funds without counting toward federal time limits. Housing assistance can help families move from welfare to work by:

- Helping to bring stability to the living situation of poor families, thereby improving their ability to find and maintain employment.
- Allowing families to afford more expensive housing in areas where jobs are more plentiful.
- Freeing up room in a family's budget, leaving more resources for transportation, child care, work clothing, and other employment-related expenses.

The role of housing assistance in expanding access to opportunity is particularly important in California. Jobs are most plentiful in the Bay Area, where housing costs can be prohibitively high for poor families. Conversely, housing is least costly in the parts of the state where unemployment rates remain high. The disparities in housing costs and employment opportunities may place many families in a double bind: unable to find work where they currently live, but unable to move due to the high cost of housing.

Examples of the types of assistance that are consistent with the intent of the federal welfare law include:

- Rental assistance provided in the form of either a subsidy that limits families' housing costs to a fixed dollar amount or a percentage of family income, or project-based subsidies for landlords that commit to maintain affordability for low income families.
- Contributions to Individual Development Accounts designed to help families save for the purchase of a home.
- Forgivable loan payments that reduce the mortgage payment of families buying a home.

California's Families Moving to Work Program

The Families Moving to Work Program (FMTW) administered by California's Department of Housing and Community Development (HCD), provides CalWORKs recipients with limited-term housing assistance combined with case management, employment services, child care, and other supportive services. The FMTW program provides deferred payment loans to developers of assisted housing to help reduce rents to a level affordable to CalWORKs recipients. FMTW loan proceeds can be used to build housing and child care, after school care, and social services facilities integrally linked to housing and fund reserves used to subsidize rent for CalWORKs recipients. Families occupying housing supported through FMTW must participate in welfare-to-work activities and receive assistance for a limited time. At the end of this initial period, residents must either move from the unit or pay market rent. FMTW rents during the assistance period are capped at $256 for a one-bedroom, $313 for a two bedroom, and $425 for a three bedroom apartment in the 17 high cost counties in the state.

Housing Opportunities Program (HOP) in San Mateo County

The Human Investment Project's Self-Sufficiency Program offers assistance to San Mateo County families as they move toward self-sufficiency through the Housing Opportunities Program (HOP). HOP allows tenants who meet certain criteria to pay below market rents for a fixed period of time as they develop skills and gain work experience in an effort to advance career goals. Participants must be receiving CalWORKs, have transitioned off CalWORKs in the last 24 months, and/or have income that is below 50 percent of median income. Participants also must maintain full-time employment; have completed at least three-quarters of a job skills education program; and have clearly defined career goals, including a sense of what salary they can expect in the future and advancement possibilities in their field.

HOP is primarily funded through the county's CalWORKs allocation, with additional support provided by county, city, and private foundation funds. The program subsidizes 60 percent of participants' rent for the first six months in the program and 30 percent for the following six months in a unit located by the participant. The program includes monthly life skills workshops in topics such as budget planning, parenting, cleaning up credit, conflict resolution, stress reduction, and job interviewing as well as monthly meetings with a case manager.

Between January 1997 and January 2000, HOP assisted 98 — mostly single mother — families, including 108 adults and 191 children. As of early 2000, 59 families have graduated from the program and another 30 families were participating in the program and expected to graduate. While all families had earnings below 50 percent of median at the start of the program, 28 percent of participants now have earnings above 50 percent of median income.

percent for the nation as a whole. In fact, California ranks 49th among the 50 states, with only Michigan having a lower share of welfare recipients receiving housing assistance.[61]

California's Homeless Face the Most Severe Housing Crisis

By definition, the homeless face the most severe housing crisis. The state Department of Housing and Community Development (HCD) estimated that 361,000 Californians, just over one out every hundred (1.1 percent), were homeless in 1996-1997.[63] Most of the state's homeless are concentrated in Los Angeles, San Francisco, Sacramento, and the Central Valley region. One out of every twenty-five residents of San Francisco (4.0 percent) was without a home in 1996-97.

Lack of Stable Housing Hurts Student Performance

Lack of affordable housing forces families to move frequently, which may contribute to lower academic performance for the children in those families. In a 1994 study of 15,000 third-graders nationwide, the General Accounting Office found that when children change schools frequently they suffer lower academic performance and are more likely to drop out of school.[64] This is attributed to the difficulty teachers have in attending to the new student's needs while maintaining continuity for their other students, differences in curriculums between districts and states, and the inefficient transfer of student records. Specifically, the study found that:

- 17 percent of all third-graders had attended three or more schools since first grade, compared to 59 percent who had attended only one school;
- 25 percent of all inner city third-graders had attended three or more schools since first grade, compared to 15 percent of rural and suburban kids;
- 30 percent of third-graders from families earning less than $10,000 had attended three or more schools since first grade, compared to only eight percent from families earning more than $50,000;
- 41 percent of third-graders who had attended three or more schools since first grade were below their grade level in reading, compared to 26 percent of kids who had attended only one school;
- 33 percent of third-graders who had attended three or more schools since first grade were below their grade level in math, compared to 17 percent of kids who had attended only one school;
- 20 percent of third-graders who had attended three or more schools since first grade had to repeat a grade, compared to 8 percent of students who had attended only one school;
- Third-graders who had attended three or more schools since first grade are less likely to receive Federal Chapter 1 services than those who had never changed schools. Seventeen percent to 22 percent, respectively, receive math services and 20 percent to 25 percent receive reading services.[65]

While the majority of the state's homeless population is male and unmarried, more than one-third (37 percent) of the homeless in California are families with children.[66] At the local level, the share of the homeless accounted for by families ranged from a low of 4.3 percent in Madera County to a high of 88.6 percent in Riverside County. While the duration of homelessness may be shorter among families with children, the experience of homelessness has a lasting impact on the life of a child that extends to adulthood. Children who experience homelessness are more likely to be homeless as adults.[67] The inherent instability of homelessness is disruptive to a child's education and corresponds to poor academic performance and higher drop out rates.[68] Many homeless children are either not in school at all or attend school on a sporadic basis; many have learning difficulties or disabilities.[69]

While state level data on the homeless are virtually non-existent, national statistics illustrate the diversity of the homeless populations. A significant portion of the nation's homeless suffer from alcohol- or drug-related problems (38 percent and 26 percent, respectively) or from serious mental illness (39 percent). Nearly half (44 percent) worked for pay within the last 30 days, but less than half of these held a regular job.[70] African-Americans make up 40 percent of the nation's homeless, with Latinos also making up a significant portion (11 percent). Veterans make up 23 percent of the nation's homeless.

While nearly all of the homeless are extremely poor, many of the very poor never become homeless.[71] Most homeless individuals suffer from extreme poverty coupled with one or more other vulnerabilities: mental illness, substance abuse, a lack of family, a history of out-of-home placement as a child, and incarceration as a child or adult.[72] Homelessness persists in today's robust economy due to the rising cost of housing and the complexity of problems experienced by a large fraction of the homeless population. The two most common reasons cited by homeless people for their situation are the inability to afford to pay the rent and the loss of employment.

"Nearly everyone has an idea for raising student achievement in inner cities…housing programs could actually have a big effect on student learning — if they help reduce the transiency of children where families cannot otherwise afford stable living places."

Richard Rothstein
New York Times
January 19, 2000

As housing markets tighten, the poor are at increased risk of homelessness. The major federal programs serving persons facing severe housing problems — the Section 8 program, public housing, and McKinney Homeless Assistance Act programs serving the homeless — are functioning at or beyond capacity in most parts of California. Temporary shelter facilities meet the needs of only one in six homeless individuals and one in five homeless families, leaving a gap of 185,000 shelter beds for individuals and over 105,000 beds for homeless families.[73]

Homelessness has a lasting impact on the individuals who experience it and results in significant social costs. Research suggests that the lack of stable housing can prevent reunification of families with children in foster care; lead to increased health care costs; and contribute to increased recidivism in the criminal justice system. A lack of hard data on homelessness and the homeless complicates efforts to craft policies and programs to combat homelessness. While a comprehensive examination of homelessness is beyond the scope of this report, homelessness and its impact on the individuals who experience it must be a part of any comprehensive strategy to address the state's housing crisis.

California's Farmworkers Have Distinct Housing Needs

California's farmworkers experience a distinct set of housing problems. Not only is the farmworker population significant in terms of sheer numbers, but farmworkers provide an essential contribution to the state's agricultural economy. California has an estimated 342,000 to 479,000 agricultural workers, half of whom live in the San Joaquin Valley.[74] The total number of people living in farmworker families is estimated at from 900,000 to 1.35 million.[75] California's farm services employment is on the rise, with much of the increase due to increased demand in the US and other countries for fresh produce.[76]

While the agriculture labor force has increased, the capacity of farmworker housing facilities declined by as much as a third between the mid-1980s and mid-1990s.[77] Registered facilities to house migrant and seasonal workers dwindled from 1,414 in 1982 to only 500 in 1998.[78] Many farmers, in an effort to avoid regulation, have replaced larger facilities with converted garages and sheds, often with little or no adequate plumbing.[79] As a result, thousands of farmworkers are forced to live in severely overcrowded and/or substandard conditions. A 1995 UC Davis study estimated that 250,000 farmworkers and their families lived in inadequate housing in 1995.[80]

In 1998, farmworkers who worked in food crops earned, on average, $6.26 per hour.[81] The problem of low hourly wages is compounded by the seasonal nature of agricultural employment. Farmworkers have the lowest annual household income of any occupation surveyed by the US Census.[82] About half (56 percent) work at least nine months of the year and about one third report working at least 46 hours per week.

"Even in boom times, there are growing numbers of homeless families in San Diego desperately searching each night for shelter…the growing demand among families far exceeds the capacity of shelters…"

Los Angeles Times
January 24, 2000

One of the difficulties in developing housing to meet the needs of the state's farmworkers is the variety of distinct populations. Both temporary and permanent housing is needed, as well as housing for single males (or males living away from their families) and large families. The section of the private market available to farmworkers is often characterized by deficient, crowded, and unsanitary conditions. The shortage of affordable housing, coupled with high rents, forces farmworkers into substandard living conditions. Landlords often increase rents during peak harvest months, driving workers into overcrowded motel rooms. Private owners also rent out back houses, garages, barns, and sheds.

Because of their low income, homeownership is out of reach for most farmworker families. Farmworkers have the second lowest rate of homeownership of any occupational group (after private housekeepers). Fewer than three percent of non-migrant seasonal farmworkers qualify for market rate financing for the purchase of a new home; similar to other low income groups, coming up with a down payment can be next to impossible.[83]

Innovative Approaches to Farmworker Housing

California's nonprofit housing agencies have developed innovative approaches to meeting the housing needs of California's farmworker families. The Coachella Valley Housing Coalition has won national recognition for projects that combine housing with child care, health care, and other family services, including:

Nueva Vista Apartments. Nueva Vista Apartments serves Mecca, a rural area of Riverside County with a large migrant farmworker population. This development is made up of one, two, and three bedroom apartments, and includes amenities such as a library, a child care facility, and a medical clinic. The health clinic is the only medical facility in the Mecca area. The child care center is operated by the Coachella Valley Unified School District, and receives operational funding from an interagency agreement between the California Department of Housing and Community Development and the Department of Education. Nueva Vista is affordable to families and individuals with an annual income of $10,000 to $15,000 per year.

Tlaquepaque Apartments. Tlaquepaque Apartments is a multifamily complex located in the rural community of Coachella. This complex consists of one, two, and three bedroom units. This project, which was financed using Low Income Housing Tax Credits, was one of six projects nationally to receive a Maxwell Award of Excellency from Fannie Mae in 1994. The award money has been used to fund summer day camps and for discount swim passes for residents at the local community pool. The complex includes two Head Start programs administered through the local school district. English as a Second Language (ESL) classes are also provided on site. Tlaquepaque is affordable to individuals and families with annual incomes of $10,000 to $15,000 per year.

Adequate Housing for the Elderly is a Growing Concern

Californians over the age of 65 are the group most likely to own their own homes. While the housing cost burdens of seniors who own their own homes are modest in comparison to other Californians, a third of senior homeowners in California's metropolitan areas pay over 30 percent of their income for housing. Seniors who rent face significant cost burdens, with 65 percent of seniors in metropolitan areas paying in excess of 30 percent of their incomes for rent and 41 percent paying more than half of their incomes for rent.[84] The high rent burden poses a significant problem for seniors since they are more likely than younger renters to be living on a fixed income. The Fair Market Rent for a studio apartment exceeds the monthly SSI/SSP grant, the basic source of cash assistance for low income elderly and disabled Californians, in four California counties (Marin, San Francisco, San Mateo, and Santa Clara). An elderly or disabled SSI/SSP recipient would spend over half of his or her income for a studio apartment in 39 of the state's 58 counties.

Changing population dynamics, including the aging of the baby boomers and growth in the number of "old old" — individuals 85 or older — highlight a distinct set of housing challenges: how can the elderly and others with physical limitations remain safely and independently in their homes and communities. Many elderly homeowners lack the financial resources needed to modify their housing in response to limited mobility and disability. Older renters have lower incomes and are more likely to live alone.[85] Renters with limited resources may need financial assistance and/or supportive services in order to remain independent. The decline in homeownership rates among younger Californians means that many may enter retirement with limited assets to maintain financial independence.

The elderly's need for a comprehensive approach to housing and supportive services is similar to that of younger persons with disabilities and individuals with chronic illness, such as persons with HIV/AIDS. This challenge is particularly acute in suburban and rural areas, where service delivery systems are less developed and distance increases the risk of social isolation.

IV. The Roots of California's Housing Crisis

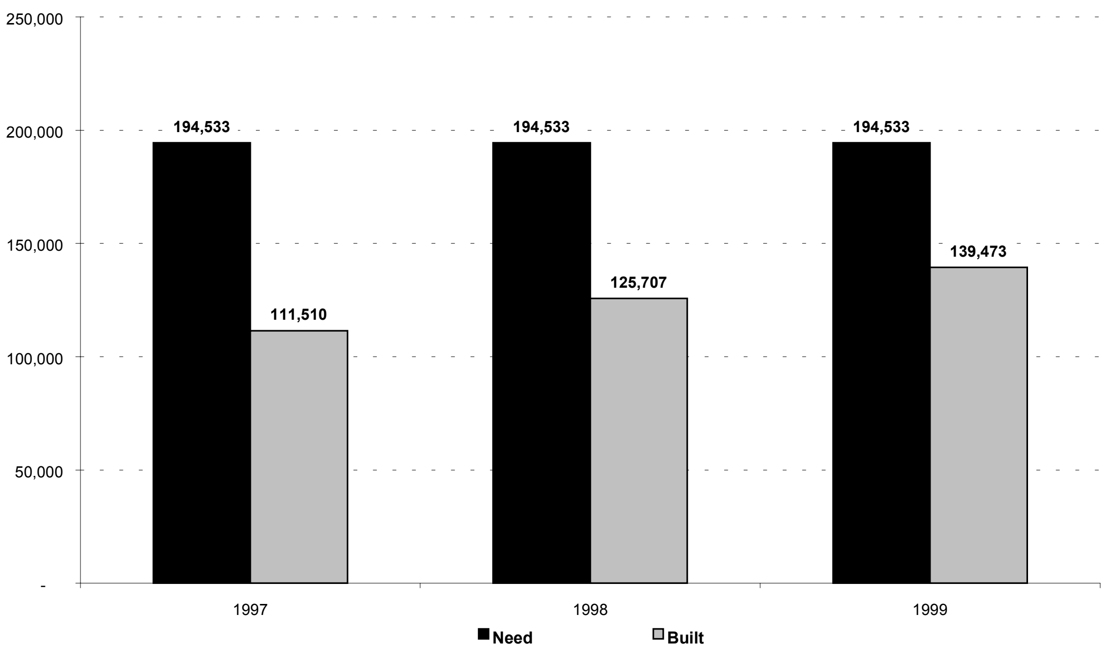
Three primary factors contribute to California's worsening affordable housing crisis. First and foremost is the failure of housing production to keep pace with population growth during the 1990s. Second, incomes for those in the bottom half of California's population have failed to keep pace with inflation since the late 1980s. Finally, government housing assistance has failed to keep pace with the growing need for affordable housing. Each of these causes is described more fully below.

Housing Production has Plummeted in the 1990s

During the 1990s, California added approximately half the number of housing units built in each of the two previous decades. Not only has housing production dropped, it has failed to keep pace with population and job growth. Between 1994 and 1998, California's population increased by 4.4 percent, while the supply of housing rose by just 1.6 percent. Production trends over the past three decades show a dramatic drop in housing construction during the 1990s. Between 1990 and 1999, building permits were issued for an average of 110,581 units of housing each year.[86] In contrast, permits were issued for an average of 215,585 units per year during the 1970s and 203,369 units per year during the 1980s.[87] On a county-by-county basis, the disparities are much greater. In Los Angeles County, for example, the population increased by 10.1 percent, while the supply of housing increased by just 3.1 percent between 1990 and 1999.[88]

The state's Department of Housing and Community Development estimates that California needs to add 1.26 million units, consisting of 703,285 units of owner occupied housing and 561,180 units of rental housing, between 1997 and 2003 in order to meet projected demand.[89]

Significant Gap Between Projected Need for Housing and Actual Production



Source: CBP calculations from Department of Housing and Community Development and Construction Industry Research Board data.

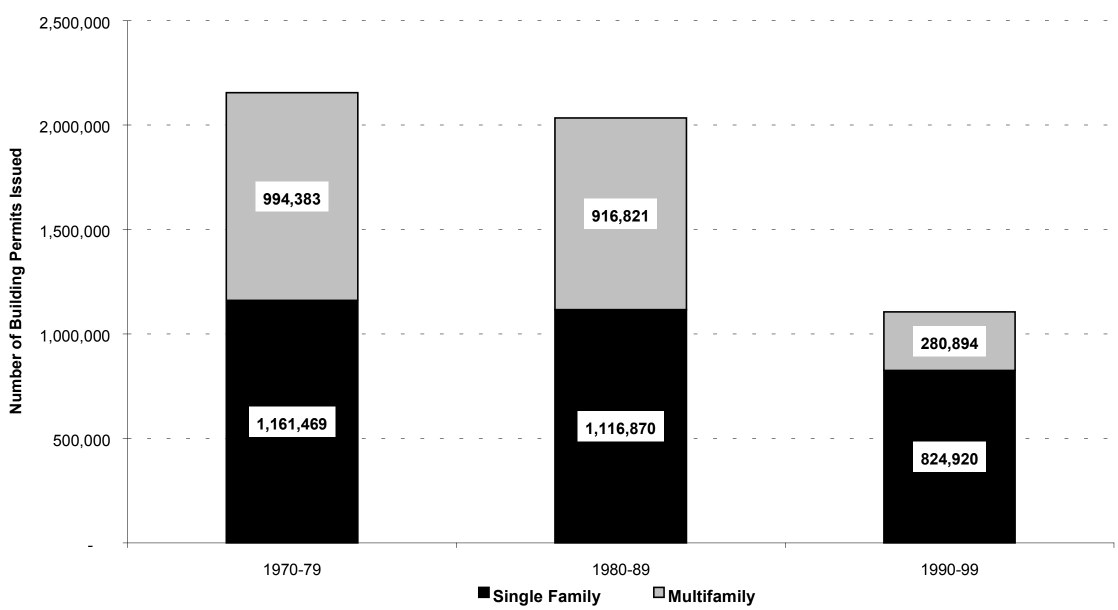
In contrast, just 376,896 units of housing were built in the state during the past three years.[90] At current production levels, state officials estimate that California is experiencing a production deficit of approximately 100,000 units per year.[91]

Last year, only ten counties built sufficient housing to keep pace with projected demand in 2003.[92] In San Francisco, where the supply of housing is increasing at a rate to meet anticipated demand, job growth is increasing far faster, suggesting that the official forecasts may underestimate the state's need for additional housing. Finally, neither the projected demand for housing nor available data on supply address whether the housing that is being built addresses the needs of those families who are most in need: renters and low income families.

Greatest Production Shortfall is for Rental Housing

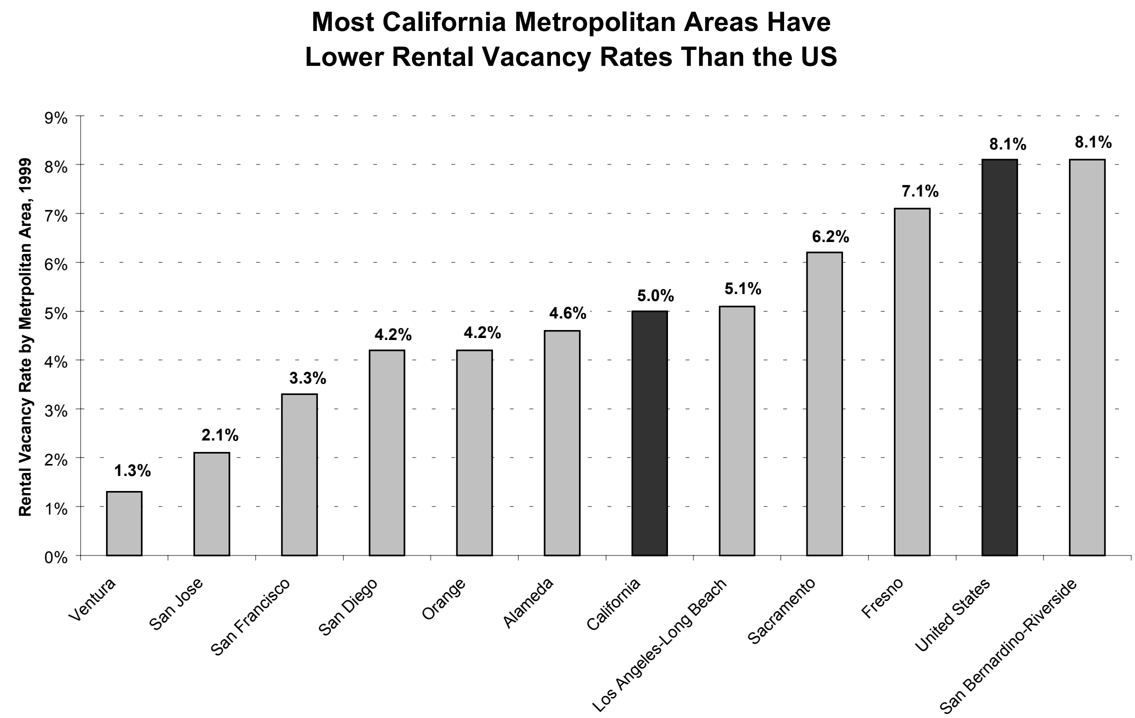
Multifamily housing accounts for the majority of the state's production gap, particularly housing that is affordable to lower income families. Not only did production decline during the 1990s, but also the balance between single and multifamily housing production shifted significantly toward single family housing. During the 1980s, for example, California added an average of 91,682 units of multifamily housing per year, 45 percent of the new housing built. Between 1990 and 1999, the state added an average of 28,089 units per year of multifamily housing, just 25 percent of total housing built during the decade and a 69 percent drop from the levels of the 1980s.[93]

Multifamily Housing a Much Smaller Share of Production During the 1990s



Source: Construction Industry Research Board.

The failure of the supply of rental housing to keep pace with population growth has caused vacancy rates to drop and rents to rise. The imbalance between supply and demand has pushed rents higher, imposing a significant burden on low and middle income renters. Rental unit vacancy rates in most of the state's major metropolitan areas are far below the national average.



Source: US Department of Commerce, Bureau of the Census.

Table 5: Job Growth Exceeds Housing Growth in All of the State's Large Counties 1994-98

County	Ratio of New Jobs to New Housing Units
San Francisco	15.8-to-1
San Mateo	10.8-to-1
Los Angeles	9.4-to-1
Santa Clara	8.6-to-1
San Diego	5.4-to-1
Alameda	5.4-to-1
Orange	4.7-to-1
California	3.9-to-1
Sacramento	3.2-to-1
San Bernardino	2.9-to-1
Riverside	2.4-to-1
Ventura	2.3-to-1
Contra Costa	2.2-to-1
Fresno	1.2-to-1

Source: CBP calculations based on Department of Finance and Employment Development Department data

The Lack of Supply is Exacerbated by a Geographic Mismatch Between Jobs and Housing

One element of California's housing crisis is a mismatch between job growth and increases in the supply of housing. The so-called "jobs-housing imbalance" refers to differential growth rates of jobs and housing within a larger metropolitan area. The resulting mismatch forces families seeking affordable shelter to move farther and farther away from the communities in which they work.

In reality, job growth has exceeded housing growth in nearly every part of the state since the economic recovery began in earnest in 1994. The number of new jobs exceeded the number of new housing units in all but 12, primarily rural, California counties between 1994 and 1998.[94] The state as a whole added 3.9 jobs for each new unit of housing, more than twice the 1.5-to-1 ratio recommended by housing policy experts. The ratio of new jobs to new housing exceeded 5-to-1 in Los Angeles, Santa Clara, San Mateo, San Francisco, and Inyo counties. The housing deficit is most severe in the Bay Area, which has led the state in economic growth. Within the nine-county Bay Area, for example, suburban Solano County is the only county where the ratio of job growth to housing growth was less than 1.5-to-1 between 1994 to 1998.

Why Did Production Decline?

A number of factors are responsible for the precipitous drop in the state's housing production. First, the deep recession of the early 1990s slowed production, as well as population growth, causing vacancy rates to rise in many parts of the state. Rising vacancy rates, coupled with the overall weakness of the state's economy, made investors wary of major financial commitments. Second, observers point to the limits on the favorable treatment previously available to investors in rental properties imposed as part of the 1986 federal tax act, and subsequent state law changes, which made investments in rental housing less profitable on an after-tax basis. These changes were designed to eliminate tax-motivated investments that contributed to overbuilding during the early part of the 1980s. However, they also discouraged production of less profitable, lower cost rental housing. Third, a growing body of evidence suggests that California's system of financing local government, and particularly the limited revenue raising authority of local governments, discourages local communities from approving new housing developments. Finally, neighborhood opposition has hindered construction of multifamily housing in many parts of the state.

California's Fiscal Structure Makes Housing Less Attractive and Less Affordable

California's system of local government finance limits the amount of revenue generated by housing and encourages local communities to favor sales tax generating retail development over residential or other forms of commercial development. In brief, Proposition 13's one percent property tax rate cap and the limited growth in revenues attributable to the measure's reassessment only upon change of ownership provisions, coupled with limits on local revenue raising authority imposed by Proposition 218 of 1996 and other ballot measures, makes it difficult for communities to recover the cost of providing infrastructure and public services to new development.

The importance of sales tax revenue in relation to other revenue sources is often referred to as the fiscalization of land use. Because sales tax revenues are distributed to the jurisdiction where the sale occurred, local governments can increase local revenues by increasing the volume of taxable sales that occur within their boundaries. These revenues have come to represent the primary source of local discretionary revenues that can be influenced by land use and other policy decisions. A recent study by the Public Policy Institute of California (PPIC) found, for example, that generating new sales tax revenues was judged by city managers statewide to be the prime consideration for development decisions. Of the city managers surveyed, 72 percent cited sales taxes as their top consideration when planning for development on vacant land. In comparison, meeting their affordable housing needs ranked 16th out of the twenty factors listed as a consideration.[95]

Many analysts cite the unintended consequences of Proposition 13 as a major reason for the state's declining housing production.[96] Over the past two decades, local officials have turned to fees and exactions imposed on new development to finance the schools, roads, sewers, parks, and other basic infrastructure typically needed by new housing developments. Prior to Proposition 13, public facilities were seen as an asset to be paid for by the entire community. Proposition 13 and subsequent measures limited local governments' revenue raising ability and thus shifted the burden of paying for schools, parks, roads, sewers, and water to those who build and purchase new housing. The added cost of paying for facilities that were once shared across the entire community increases the cost of housing, pushing homeownership further out of the reach of young families and others of modest means.

Financial pressures on local government also encourages development of "high end" rather than affordable housing. More expensive housing produces higher property tax revenues, while requiring comparable levels of public infrastructure and services. A $300,000 home, for example, generates $3,000 in property tax revenues at the basic one percent property tax rate established by Proposition 13, while a $120,000 home generates just $1,200 in property tax revenues, while creating comparable demands on local schools, police, fire, and other services.

Neighborhood Opposition Hinders Efforts to Build Multifamily Housing

Neighborhood opposition from "NIMBYs" (Not In My Back Yard) has blocked construction of affordable housing projects in California. Much of the NIMBY attitude is based upon fears that construction of low income housing will bring down property values for the neighborhood in general, despite the fact that little data is available to support this assumption. Several studies, however, dispute this prevailing wisdom, finding that affordable housing can actually *increase* surrounding property values.

Affordable Housing and Property Values

Local opposition to low income and/or rental housing construction is often motivated by neighbors' concerns that the value of the property will be diminished. Despite perceptions to the contrary, several studies find that affordable housing can actually *increase*, rather than decrease, property values in the surrounding area.

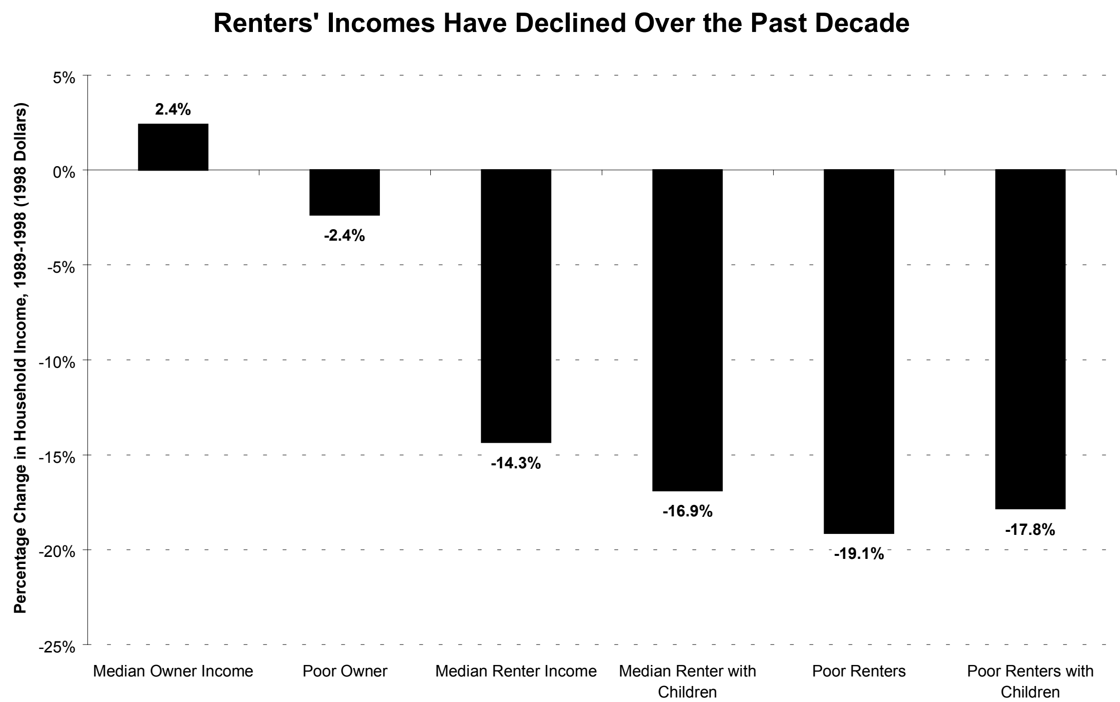
Affordable Housing Does Not Inhibit Market Development. A 1996 market analysis of four Chicago suburbs by Michael S. MaRous found that not only did low income housing fail to lower local property values, but it also did not inhibit further market development in the immediate area. Contrary to general expectations, developers continued to build and sell high-quality, single-family housing next door to projects targeted for very-low income residents. The study found that factors contributing to this success included cooperation between the community and developer to coordinate the development with nearby densities and uses; integration of construction and design with the neighborhood to avoid standing out as public housing; and providing competent management to keep the development well maintained.

Affordable Housing May Increase Adjacent Property Values. A 1993 analysis of affordable housing developments adjacent to single-family home neighborhoods in the San Francisco Bay Area, conducted by UC Berkeley's Institute of Urban and Regional Development, found that local residential home values were not adversely affected by proximity to affordable housing developments. In fact, home values in several cases were found to be higher the nearer the home was located to a project. The authors concluded, as with the Chicago study, that the physical characteristics of the projects themselves are far more important than the income characteristics of the residents who live in them.

Affordable Housing Has Little or No Impact on Adjacent Values. A literature review conducted by the state Department of Housing and Community Development in 1988 found that, of 15 published papers on the subject, "14 reached the conclusion that there are no significant negative effects from locating subsidized, special-purpose or manufactured housing near market-rate developments." Of the 14 studies, four were based on areas within California (the San Fernando Valley in Los Angeles, San Jose, and two in Marin County). In several cases (including the San Fernando Valley), property values increased after subsidized units were located in the neighborhood. In most other cases, effects were found to be nonexistent or negligible.

Incomes Have Failed to Keep Pace with Rising Housing Costs

Stagnating household incomes have exacerbated the state's affordable housing crisis. After adjusting for inflation, the income of the household exactly at the middle of California's income distribution fell by 3.9 percent between 1989 and 1998. While incomes for the median household modestly outpaced inflation (2.4 percent), those of poor homeowners and renters failed to keep pace with inflation.[100] While incomes have risen since 1995, housing prices have increased even more rapidly.



Source: CBP analysis of the Current Population Survey. Poor households are those at the 20th percentile.

Housing Assistance at Both the State and Federal Levels Fails to Meet California's Needs

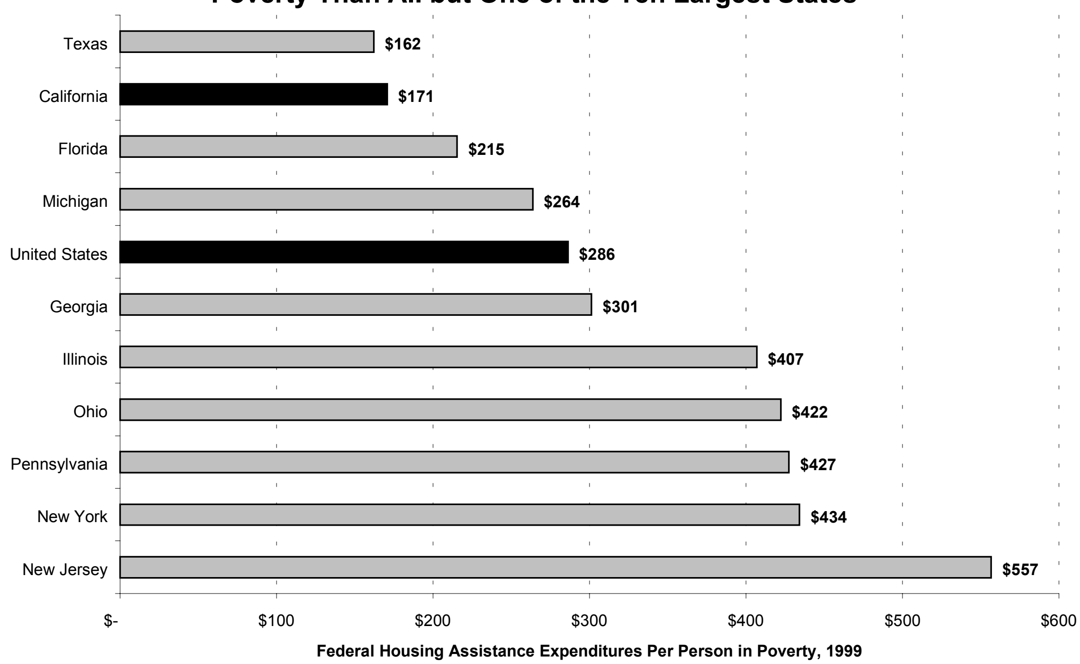
Historically, the federal government has provided the majority of public support for low income housing programs. However, federal aid has not kept pace with the need for assistance and state and local sources have not stepped in to fill the gap. Moreover, both state and federal assistance primarily benefits higher income families through the tax preferences for homeownership. These preferences provide little or no assistance to low to middle income Californians, who face the most acute housing problems.

Federal Support for Housing has Declined

During the late 1970s, the federal Department of Housing and Urban Development (HUD) made commitments to expand rental assistance nationally to an average of 260,000 additional households per year. From 1982 through 1997, the average number of new households assisted fell to approximately 70,000 per year.[101] Moreover, in the mid-1990s Congress actually cut off the supply of new Section 8 vouchers and for the first time reduced the overall numbers of families assisted with its rental assistance programs. While Congress increased the level of federal assistance in each of the last two years — adding 110,000 new Section 8 vouchers — those levels will be inadequate to meet California's needs.

The federal government has been the traditional provider of housing assistance to very low income households. However, federal efforts make a small dent in the number of families who need assistance. Nationwide, approximately one in four eligible households receives federal housing assistance. The proportion of eligible households receiving assistance is even lower in California than in the nation as a whole. California received fewer federal housing assistance dollars in 1999 for each individual living below the federal poverty level than all but one of the ten largest states.[102] While the federal government spent, on average, $286 on housing assistance for each person in poverty, California received only $171 per person in poverty. The disparity results from an increase in the number of California households eligible for assistance coupled with limited growth in federal assistance and funding formulas based on historic, rather than current, need.

California Receives Less Federal Housing Assistance Per Person in Poverty Than All but One of the Ten Largest States



Source: CBP calculations from US Department of Commerce, Bureau of the Census data.

Demand for Federally Assisted Housing is Intense

A recent survey of twenty local housing authorities found 371,740 families were on waiting lists for Section 8 assistance, more than three times the 104,133 families receiving assistance.[103] The survey found 93,632 families wait listed for 25,268 units of public housing. Moreover, actual demand for housing assistance may be much higher since many agencies periodically close waiting lists to new applicants and some hold lotteries to determine who will be allowed access to the waiting list. The Alameda County Housing Authority, for example, received 15,000 applications for assistance when it opened waiting lists for assistance in August 1999. The Agency then held a lottery to reduce the number of families that would be added to the waiting list to 3,000.

As a result, thousands of families languish on waiting lists for federally supported housing assistance. In the City of Los Angeles, 155,000 names were on the waiting list last year for Section 8 housing assistance; 35,000 families currently receive assistance. There were more than 11,000 families on the waiting list for public housing, with the largest demand for three and four bedroom units. In Fresno, 12,000 families are on the Section 8 waiting list and housing authority officials estimate that the average wait for assistance is four to five years.

Table 6: Counties That Have Lost Affordable Units*

County	Total Units Lost
Alameda	871
Butte	106
Contra Costa	212
Del Norte	60
El Dorado	100
Glenn	10
Imperial	44
Kern	456
Los Angeles	5,394
Merced	50
Monterey	17
Nevada	80
Orange	1,012
Placer	184
Riverside	657
Sacramento	800
San Bernardino	678
San Diego	1,582
San Francisco	126
San Joaquin	66
San Mateo	280
Santa Clara	1,794
Santa Cruz	78
Shasta	90
Solano	317
Sonoma	78
Stanislaus	142
Tulare	64
Ventura	211
Yolo	95
TOTAL UNITS	15,654

*Units with Prepayment Complete and/or Section 8 Terminated
Source: California Housing Partnership Corporation (April 2000)

Loss of Federally Subsidized Housing Threatens to Shrink Supply of Affordable Units Further

Over the past three decades, the federal government has provided assistance to developers of affordable housing in the form of guaranteed rental payments and low cost financing in exchange for a commitment that rents would remain affordable.[104] This arrangement assured property owners rents sufficient to pay debt service and operating costs and provided sorely needed housing for low income families.

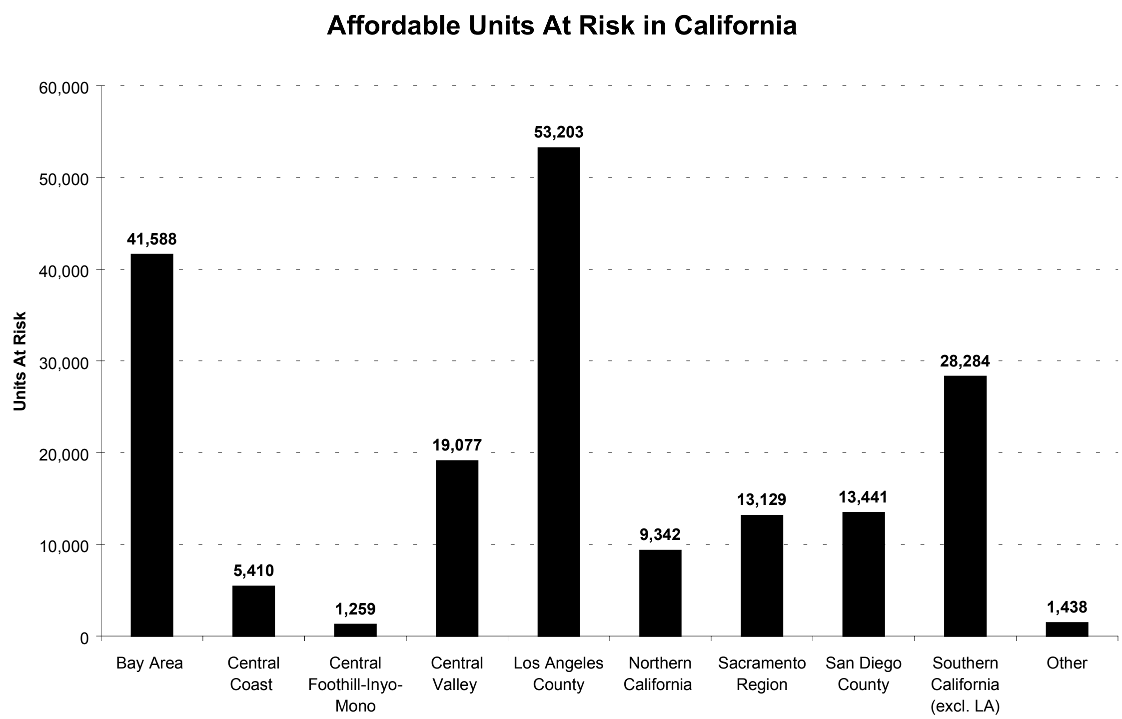
What Types of Subsidized Units are At Risk?

Several federal programs provide assistance to affordable housing developers in exchange for a commitment to maintain affordability. Assistance received by developers of units currently at risk of conversion to market rents includes:

- Below market interest rates ranging from one to three percent and mortgage insurance in exchange for 20-year affordability commitments. As of May 1998, approximately 15,000 units were eligible to convert under the prepayment rights enacted by Congress in 1996.
- Project-based subsidies under the Section 8 program whereby the federal government committed to subsidize rents for 15 or 20 years. Under the Section 8 program, tenants pay no more than 30 percent of their income for rent. The average income of California Section 8 participants is approximately $10,000 per year and over 40 percent of the program's participants are elderly or disabled. Nearly 100,000 units are at risk of conversion over the next six years.
- Housing financed with the proceeds of tax-exempt bonds. California, like other states, issues tax-exempt bonds to finance housing construction. Most of the housing financed by tax-exempt bonds serves a mix of incomes, placing these units at particular risk for conversion. Approximately 28,000 units of bond financed housing are at risk of conversion to market rents.

Many of the projects built with federal assistance are reaching the expiration dates of their contracts to maintain affordability, putting a significant fraction of California's affordable housing stock at risk of conversion to market rate housing as landlords allow these contracts to expire. Moreover, in 1996 Congress restored the rights of owners to prepay their HUD-assisted mortgages, giving property owners in areas with rising rents the ability to refinance and convert to market rents. In the past three years, California has lost more than 15,000 affordable housing units to opt-outs and prepayments, a total of 11 percent of the federally assisted inventory, with most of the losses occurring in Los Angeles, Orange, San Diego, and Santa Clara Counties.[106]

The state Department of Housing and Community Development (HCD) estimates that more than 180,000 units may be at risk of conversion from affordable to market rents over the next decade.[107] Already, some units judged at low risk of conversion based on the type of subsidy received, location of the property, and owner, have been converted to market rate rents. Without governmental action, property owners are likely to convert these units to market rents over the next few years, displacing existing tenants who will be unable to shoulder the burden of significantly increased rents.[108]



Source: Department of Housing and Community Development.

State Support for Housing: From Leader to Laggard

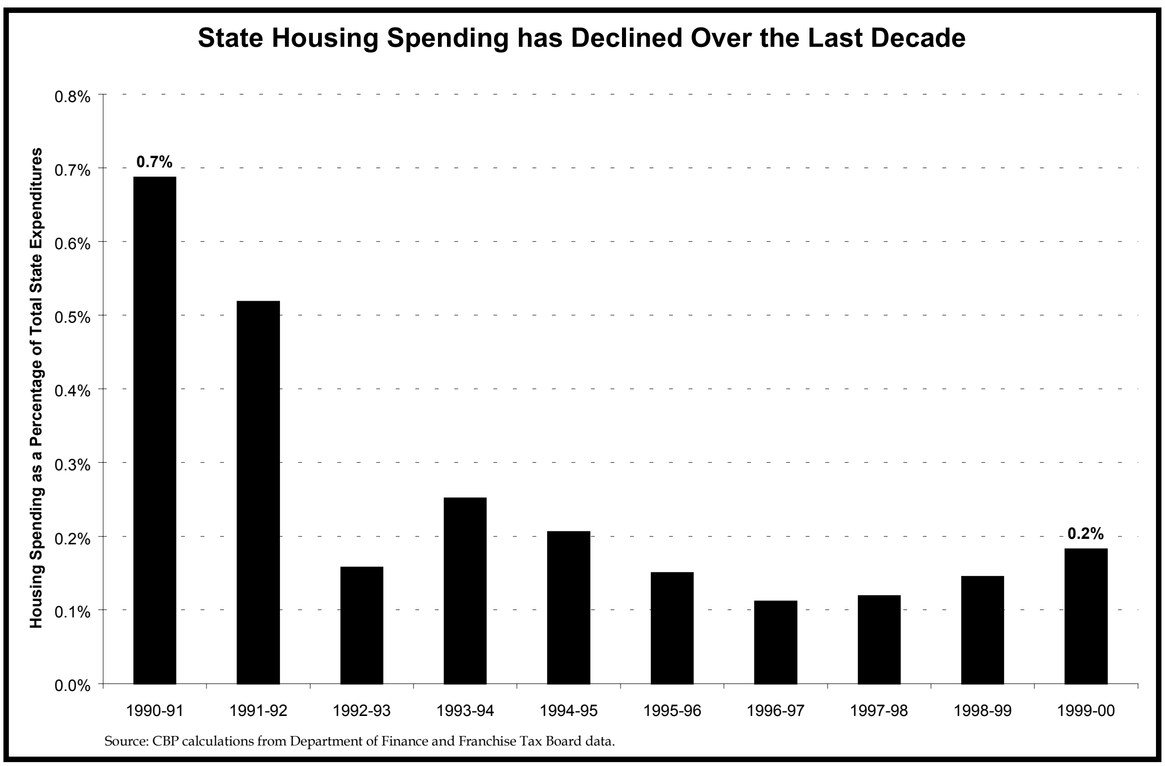
Over the last decade, California has gone from being a leader of innovative state housing policy to a laggard. During the late 1980s, California implemented a series of innovative housing programs and provided substantial funding for its housing efforts. Among its signature initiatives were:

- ***Creation of the first state housing trust fund in 1985.*** The California Housing Trust Fund was intended to be a permanent, dedicated source of funding for state housing programs administered by the state HCD. Support for the fund comes from a portion of the proceeds from leasing state tidelands for oil production and support programs including the Emergency Housing and Assistance Program. However, the Trust Fund has never fulfilled its potential and funding has remained stagnant at approximately $2 million a year throughout the 1990s.

- ***Creation of a state supplement to the federal low income housing tax credit.*** In 1987, California created a state low income housing tax credit as a supplement to the federal low income housing tax credit to help build and rehabilitate affordable housing. Initially funded at $35 million per year, lawmakers increased the allocation to $50 million per year in 1998.

- ***Passage of state affordable housing bonds.*** In 1988 and 1990, California voters approved three general obligation bond measures (Propositions 77, 84 and 107), totaling $600 million, to support the construction and rehabilitation of affordable housing. These funds were largely committed by the end of 1993 and spent by the end of 1997. Bond funds built and rehabilitated approximately 10,500 units of affordable housing.[109]

State housing spending dropped substantially during the 1990s from 0.7 percent of total spending in 1990-91 to 0.2 percent of total spending in 1999-00. During the early 1990s, bond proceeds supported a substantial investment in affordable housing. However, as these funds disappeared only minimal state support was allocated to take their place. While the 1999-00 budget includes several modest initiatives, the absolute number of dollars allocated to housing and related programs is less than half that of a decade ago.



Support Provided Through the Tax Code Favors Higher Income Households

The vast majority of public support for housing, at both the state and federal levels, comes in the form of tax deductions for mortgage interest and property taxes and preferential

California Spends Less on Housing than Other Major States

California's commitment to affordable housing is substantially less than many other states, in both absolute terms and as a share of total state spending. California is one of 33 states with housing trust funds. Trust funds provide a dedicated source of funding for housing programs. California's fund receives a $2 million per year allocation from the proceeds of oil lease payments on state tidelands, less than the initial $5 million allocation made in the mid-1980s. Overall, California allocated $109.6 million for housing programs in 1999-00, including $40 million in limited term assistance to the School Facilities Fees Assistance program and $33.5 million in Low Income and Farmworker Housing Tax Credits. Other states with much smaller populations spent significantly more:

- **Florida.** With less than half the population of California, Florida allocated $149 million for housing programs for low and moderate income families in 1999-00. The primary source of support for Florida's housing programs comes from a documentary stamp tax levied on real estate transfers. This tax provides an ongoing source of support for Florida's housing trust fund, including $146 million in 1999-00.
- **Massachusetts.** In 1998-99, Massachusetts allocated $187 million for housing. Major program initiatives include $31 million in state support for public housing authorities, $39 million for rental assistance programs, and $71 million for capital investments.
- **Illinois.** Illinois supports its housing trust fund with a dedicated real estate transfer tax. The tax raised $21 million in 1998; a sum that exceeds California's support for similar programs targeted at low and moderate income families.
- **Washington.** With a population one-sixth as large as California's, Washington state's housing spending is comparable to that of California. The centerpiece of the state's expenditures is a housing trust fund supported by a combination of dedicated revenues and appropriations from the state's capital budget. The fund provided $62 million in support for housing construction and preservation programs during the state's 1999-00 biennium, plus $5 million for homeless families and $8 million for farmworker housing.
- **New Jersey.** New Jersey allocated $48 million in state support for housing programs in 1999-00. Of this amount, $29 million comes from a dedicated real estate transfer tax that provides an ongoing source of funding for the state's affordable housing programs.
- **Oregon.** Oregon, with a population of 3.3 million, allocates interest earned on renters' security deposits to a trust fund used to support low income rental housing. In 1997-98, the fund received $4.5 million, approximately equal to California's multifamily housing spending in the current budget year.

treatment of gains realized when a home is sold. By allowing taxpayers to deduct the interest they pay on the money borrowed to purchase a home and property taxes paid, the tax code reduces the after-tax cost of housing. Not only do these deductions provide substantial assistance for those who own their own homes, they provide more favorable treatment for investments in homeownership relative to other types of investments.

The structure of the tax preferences available for homeownership favors high income households by allowing taxpayers to claim deductions not only on their primary residence, but also on second homes. The tax code also allows deductions for interest payments on mortgages of up to one million dollars, far in excess of the amount needed to finance an average priced home. The bias toward higher income households is greater since low to middle income Californians pay little or no state income taxes and thus receive minimal if any benefit from the deductions claimed by higher income taxpayers.

In 1999-00, home mortgage deductions reduced state tax collections by an estimated $2.9 billion. Property tax deductions and the preferences for capital gains associated with the sale of a home cost the state $590 million and $790 million in lost revenues, respectively.[110] In 1998, nearly half (48 percent) of all mortgage interest deductions were claimed by the eight percent of taxpayers with incomes in excess of $100,000. The capital gains preferences benefit an even narrower high income bracket, with 85 percent being claimed by households with incomes over $100,000. In contrast, the state's one broad-based tax preference for renters, which was eliminated between 1993 and 1997, cost an estimated $140 million. At $60 for single taxpayers and $120 for families, the benefits are modest in comparison to those available to those who own their own homes.[111] Finally, the state finances a property tax exemption on the first $7,000 of the value of a home.

Table 7: Housing Tax Breaks Predominantly Benefit Higher Income Households

Adjusted Gross Income	Percent of All Taxpayers (1997)	Percent of All Mortgage Interest Deductions (1998)	Average Mortgage Interest Deduction (1998)	Percent of All Capital Gains Exclusions (1998)	Average Capital Gains Exclusion (1998)	Percent of All Property Tax Deductions (1997)	Average Property Tax Deduction (1997)
$0 - $20,000	39.6%	0.3%	$104	0.0%		6.9%	$1,440
$20 - $40,000	25.9%	3.9%	$266	0.3%	$338	13.8%	$1,413
$40 - $60,000	14.3%	12.8%	$481	1.5%	$487	17.9%	$1,706
$60 - $80,000	8.1%	18.2%	$745	6.8%	$621	15.2%	$1,941
$80 - $100,000	4.5%	16.7%	$1,020	6.8%	$727	11.3%	$2,292
$100 - $150,000	4.3%	23.8%	$1,307	21.5%	$1,302	14.1%	$2,796
$150 - $200,000	1.4%	8.9%	$1,642	21.6%	$2,463	6.2%	$3,713
$200 - $250,000		5.1%	$1,925	13.5%	$3,078		
$250 - $500,000	1.5%*	7.6%	$2,179	24.1%	$4,925	9.3%*	$5,098
Over $500,000	0.4%	2.9%	$1,760	4.1%	$2,674	5.3%	$10,207

*$200-$500,000. Source: Legislative Analyst's Office, Franchise Tax Board

The State's Limited Support for Housing is Divided Among Multiple Agencies

Responsibility for California's housing programs is fragmented among multiple state agencies with overlapping goals and responsibilities. The Department of Housing and Community Development holds primary responsibility for state housing planning and policy development, enforcing building standards, and administering a number of housing finance and rehabilitation programs. Within the Office of the State Treasurer, the Tax Credit Allocation Committee (TCAC) allocates state and federal Low Income Housing Tax Credits and the California Debt Limit Allocation Committee (CDLAC) issues tax-exempt bonds used to finance loans to qualified borrowers. The California Housing Finance Authority (CHFA) uses the proceeds of bond sales to finance loans to support housing development and purchase mortgages made by other lenders.

Multiple programs and agencies support many projects that receive public funds. Program requirements, application rules and processes, funding criteria and cycles, and maximum rent level requirements vary significantly from program to program and department to department. When program priorities vary among agencies, developers may be unable to assemble the package of support needed for a project to get built. While advocates note that specialization allows the individual agencies to effectively respond to the needs of the private market, fragmentation can also result in duplicative oversight, make it difficult for policymakers to know which agency to hold accountable, and reduce the resources available for housing construction and preservation.

Most Local Support for Housing Comes from Redevelopment

The largest single source of state and local support for affordable housing comes from the Low and Moderate Income Housing Funds of local redevelopment agencies.[112] These funds come from a portion (or "increment") of the property tax revenues attributable to redevelopment activities and related funds. While other state and federal sources of support for housing have declined, Low and Moderate Income Housing Funds have increased.

While redevelopment revenues available for housing have increased, agencies' expenditures have not kept pace with the growth in Fund revenues. Concern over the lack of spending from Low and Moderate Income Housing Funds led the Legislature to impose a "use it or lose it" requirement on agencies that failed to spend funds set aside for housing on a timely basis. At the end of 1997-98, unencumbered balances — balances that were not committed to a particular project — in agencies' Low and Moderate Income Housing Funds totaled $581 million as compared to $306 million at the end of 1990-91.[113] While state law penalizes agencies that fail to spend money devoted to housing on a timely basis, it remains to be seen whether these provisions will be subject to effective oversight and enforcement.

Other policy considerations related to redevelopment agencies' affordable housing activities include the degree to which agencies target those most in need and the share of funds earmarked for housing activities. Of the 18,472 units scheduled for construction by redevelopment agencies within the next two years, less than half (38 percent) are affordable to very low income households, despite the fact that this group faces the most serious housing needs.[114] State law currently requires at least 20 percent of the property tax increment generated within a redevelopment area to go to housing. Many advocates argue that the magnitude of the state's affordable housing crisis warrants a higher threshold and that a balance between redevelopment's goals of economic development and housing could easily justify a threshold of 25 percent or more.

V. California Needs a Renewed Commitment to Affordable Housing

Left unchecked, California's housing crisis threatens the future vitality of the state's economy and the ability of California's families to afford one of the most basic necessities of life. The shortage of affordable housing is the result of changes in the private housing market, concerns over the impact of new development, as well as demographic and economic factors. Public policies, ranging from the support for homeownership provided through our tax codes to land-use policies of local governments, have had a long-term impact on the availability and affordability of housing for all Californians. Public policies — at all levels of government — can play a significant role in addressing the state's current housing crisis.

Increase the Federal Government's Commitment to Housing

Historically, the federal government has played a leading role in housing policy. Over the past two decades, significant responsibility for housing policy and finance has devolved to states and localities. Federal support for housing has failed to keep pace with the need for housing assistance. Housing is a national concern that demands a national solution. State and local solutions alone will not solve California's housing crisis. A renewed federal commitment to affordable housing including additional financial support is essential.

Use Existing Resources for Affordable Housing More Effectively

While additional resources are clearly needed to address the crisis, more housing could be built by using existing resources more efficiently. Steps that could be taken to achieve this goal include:

- State law requires 20 percent of the increase in property tax revenues attributable to redevelopment activities to be set aside for affordable housing. Many localities have been slow to spend housing set-asides and the unspent balances in set-aside accounts have risen during the 1990s. Prior attempts at imposing "use it or lose it" policies on agencies that fail to fulfill their affordable housing development responsibilities have failed to encourage additional spending. Tougher sanctions are needed to ensure that agencies spend their housing set-asides on a timely basis and that revenues that are "lost" remain dedicated to affordable housing.

- With the lack of housing now threatening the future vitality of the state's economy, serious consideration should be given to increasing the share of redevelopment property tax dollars devoted to affordable housing and to requiring that these dollars be targeted to the lowest income households, whose housing problems are the most severe.

- State planning laws require cities and counties to insure that regional affordable housing needs are met. However, this requirement is poorly, if ever, enforced. Many communities' housing plans do not comply with state law and many jurisdictions have failed to meet targeted levels of affordable housing production. California's housing crisis is greatest for those with limited financial means to compete in the private market. In order to insure that no Californians are left behind, the state should put teeth into the existing housing production requirements and consider tying aid for infrastructure and other programs to fulfillment of "fair share" housing responsibilities.

- The state's modest support for housing is fragmented among three agencies and a number of programs. While the current structure allows agencies to respond to specialized needs in the private market, improved coordination and collaboration would help insure that the maximum benefit is received for every dollar of state support. Last year's consolidation of multifamily housing programs administered by the Department of Housing and Community Development is a good first step toward aligning program funding and administration, but more could be done to insure that state dollars and priorities work together to effectively address California's housing needs.

- Proposition 13's property tax limitations discourage housing production and increase the cost of new housing through fees imposed on new construction to recover the cost of needed infrastructure and services. A re-examination of state and local fiscal policies is needed to remove barriers to housing production, on the one hand, and insure that localities have the resources to support quality public services on the other.

Increase State Support for Housing

California's affordable housing crisis will only be addressed through an increased commitment of public resources. The state's strong fiscal condition offers the opportunity to make a major investment that will benefit California's families and communities in the decades to come. This increase in resources must be flexible enough to balance the needs of low income renters with support for homeowners and support for production of new housing with preservation of the existing affordable housing stock; as well as to fulfill the special needs of the homeless, farmworkers, and others whose housing problems will not be solved by traditional approaches to housing policies.

Potential sources of state support include:

- ***Increased support through the annual budget.*** The state's financial contribution to affordable housing diminished during the tight budget years of the early 1990s. Funding has not returned to pre-recession levels, despite the significant growth in revenues in recent years. The magnitude of the state's housing crisis, coupled with continued population growth, calls for an ongoing commitment to assure that all Californians have access to decent housing. A commitment to continued funding through the annual budget act could help address the state's most immediate and pressing housing needs. One option for increasing funding within the confines of existing resources would be to divert revenues that currently go toward housing assistance provided through the tax code to programs that actually increase the state's supply of affordable housing and improve the ability of low and middle income families to attain homeownership. For example, revenues that currently go toward the renters' tax credit could be shifted to a rental housing production program targeted to those with the greatest housing needs. A similar swap could replace the homeowners' property tax exemption with support for programs aimed at first-time homebuyers. If enacted, these shifts would provide sufficient resources to significantly impact the state's affordable housing crisis.

- ***Use available one-time revenues to capitalize the state's Housing Trust Fund.*** This year's significant budget surplus offers the opportunity for the state to use a one-time infusion of funds to create a lasting endowment to support affordable housing. One-time funds could be used to support housing construction and preservation targeted at low income renters who confront the state's worst case housing needs; a revolving loan fund, providing below market rate capital to affordable housing developers and first-time homebuyers; and, at the individual project level, to capitalize operating reserves designed to insure that housing remains affordable for the long-term. A well-endowed trust fund could help leverage private capital to multiply the benefits received from each dollar of state support.

- ***Place a general obligation bond dedicated to affordable housing before the state's voters.*** During the 1980s, the state used its ability to issue tax-exempt bonds as a means of securing funds to support affordable housing. A bond measure has the advantage of raising substantial funds in the short term, while spreading the burden of repayment over a number of years. Bonds spread the cost of financing assets that provide a lasting benefit to the state among current and future taxpayers. Just as homeowners borrow to finance the purchase of a home, bonds allow the state to share the cost of investing in affordable housing among current and future taxpayers. In crafting such a proposal, policymakers should take into account the state's acute shortage of low cost rental housing, the needs of special populations, as well as efforts to boost homeownership.

Link Support for Housing to Other Services to Meet the Needs of Special Populations

Many Californians have housing needs that won't be fulfilled by "one size fits all" solutions. The homeless and the elderly and disabled, for example, have special needs for housing and supportive services. Programs that combine housing assistance with health, substance abuse, and mental health services, can bring stability to the homeless. Similarly, the impending population boom among the elderly will require innovative approaches to assisted housing and other programs designed to help the aged remain safely and independently in the community.

Conclusion

California is facing a housing crisis of dramatic proportions. Record numbers of renters are paying far too large a portion of their limited incomes for rent. Californians face some of the nation's least affordable homeownership markets. While the poorest households face the most severe housing problems, millions of California's working households also face substantial problems. In vast parts of the state, middle income families with two full-time workers are not able to afford to buy a home.

The lack of affordable housing has widespread implications for families, communities, and the vitality of the California economy. High housing costs make it difficult for businesses to attract and retain workers. The search for affordable housing is driving many metropolitan-area workers farther and farther from their jobs, creating ever-greater suburban sprawl and leading to growing traffic congestion and greater air pollution. Rising rents make it impossible for low wage workers to live in the communities where they work, forcing many to choose between a long commute and overcrowded, substandard housing. When families are forced to spend more of their earnings on shelter, they have less to spend on food, clothing, child care, and other necessities. And the lack of affordable housing contributes to the stubborn challenge of preventing homelessness and helping those who are already homeless get off the streets.

Greater efforts at the federal, state, and local levels will be necessary to meet the housing challenges identified in this report. The federal government should resume its traditional leadership role in providing funding to make housing affordable for all. The state, too, should make greater efforts to enhance funding for new housing initiatives and to ensure that existing state and local resources are used to their full potential.

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[52] Department of Housing and Community Development, *California's Housing Markets 1990-97: Statewide Housing Plan Update Phase II* (January 1999), p. 54.
[53] California Budget Project analysis of the 1997 National American Housing Survey.
[54] Department of Housing and Community Development, *California's Housing Markets 1990-97: Statewide Housing Plan Update Phase II* (January 1999), p. 54.
[55] California Budget Project analysis of the 1997 National American Housing Survey. Overcrowded households are defined as households with more than one person per room. Severely overcrowded households are households with over 1.5 persons per room.
[56] Department of Housing and Community Development, *California's Housing Markets 1990-97: Statewide Housing Plan Update Phase II* (January 1999), p. 104. Latino households account for approximately 22 percent of the state's metropolitan area households.
[57] California Budget Project analysis of the 1997 American Housing Survey.
[58] Department of Housing and Community Development, *California's Housing Markets 1990-97: Statewide Housing Plan Update Phase II* (January 1999), p. 104.
[59] Paul Ong, *Subsidized Housing and Work Among Welfare Recipients*, Housing Policy Debate, Volume 9, Issue 4, University of California at Los Angeles (Fannie Mae Foundation: 1998).
[60] R. Mark Gritz, David C. Mancuso, Anne Moses, *The First Year of SUCCESS: Evaluation of San Mateo County's Welfare to Work Project* (The SPHERE Institute, April 9, 1999), p. 47.
[61] Center on Budget and Policy Priorities, *Housing and Welfare Reform: Some Background Information* (Revised November 5, 1998), downloaded from http://www.cbpp.org/hous212.htm.
[62] The program uses HUD's area median income criteria for San Mateo County. In March 2000, 50% median income for a family of three in San Mateo County was $32,600.
[63] Department of Housing and Community Development, *California's Housing Markets 1990-97: Statewide Housing Plan Update Phase II* (January 1999), p. 121. While homelessness is a serious problem, accurate estimates of the number of homeless persons are difficult to come by due to the nature of the problem. Persons living in unstable arrangements - such as temporarily crowding in with friends or relatives - are not counted as "homeless," for example, despite the fact that they may be one unforeseen expense or crisis away from living on the street. Moreover, many of those who are literally homeless, such as those living under bridges or in cars, are not counted due to the difficulty in finding them. As a result, most estimates probably underestimate the actual homeless population.
[64] General Accounting Office, *Elementary School Children: Many Change Schools Frequently, Harming Their Education* (February 1994).
[65] Chapter 1 services provide educational support to students achieving below grade level in math and reading.
[66] Department of Housing and Community Development, *California's Housing Markets 1990-97: Statewide Housing Plan Update Phase II* (January 1999), pp. 121-124.
[67] Martha R. Burt, et al, *Homelessness: Programs and the People They Serve* (Urban Institute: December 1999), p. 13.
[68] General Accounting Office, *Elementary School Children: Many Change Schools Frequently, Harming Their Education* (February 1994).
[69] Marjorie J. Robertson and Paul A. Toro, "Homeless Youth: Research, Intervention, and Policy," *Practical Lessons: The 1998 National Symposium on Homelessness Research* (US Department of Housing and Urban Development and US Department of Health and Human Services: August 1999), pp. 3-10.
[70] Martha R. Burt, et al, *Homelessness: Programs and the People They Serve* (Urban Institute: December 1999), pp. 12-18. A regular job was defined as one lasting or expecting to last at least three months.
[71] Ibid., p. 31.
[72] Ibid., p. 13.
[73] Department of Housing and Community Development, *California's Housing Markets 1990-97: Statewide Housing Plan Update Phase II* (January 1999), p. 121.
[74] Alicia Bugarin and Alias S. Lopez, *Farmworkers in California* (California Research Bureau, California State Library: July 1998), p. 9, 28.
[75] Department of Housing and Community Development, *California's Housing Markets 1990-97: Statewide Housing Plan Update Phase II* (January 1999), p 111.

[76] Alicia Bugarin and Elias S. Lopez, *Farmworkers in California* (California Research Bureau, California State Library: July 1998), p. 7.
[77] Legislative Analyst's Office, *Analysis of the 1994-95 Budget Bill* (1994), p. G-37.
[78] Alicia Bugarin and Elias S. Lopez, *Farmworkers in California,* (California Research Bureau, California State Library: July 1998), p. 23.
[79] Legislative Analyst's Office, *State Housing Program Issues for 1994-1995* (1994), p. 21.
[80] Alicia Bugarin and Elias S. Lopez, *Farmworkers in California* (California Research Bureau, California State Library: July 1998), p. 23.
[81] Employment Development Department, *Occupational Employment and Wage Data 1998: Occupational Employment Statistics (OES) Survey Results* (Revised March 30, 2000), downloaded from http://www.calmis.cahwnet.gov/file/occup$/oes$.htm.
[82] Alicia Bugarin and Elias S. Lopez, *Farmworkers in California* (California Research Bureau, California State Library: July 1998).
[83] Alicia Bugarin and Elias S. Lopez, *Farmworkers in California* (California Research Bureau, California State Library: July 1998), p. 23.
[84] California Budget Project analysis of the 1997 National American Housing Survey.
[85] American Association of Retired Persons, *Progress in the Housing of Older Persons: A Chartbook* (1999), p. 5.
[86] Construction Industry Research Board, *Total New Housing Units in Building Permits, State of California, by County and Year* (January 28, 2000).
[87] California Department of Finance, *1999 Statistical Abstract,* Table I-3 and California Association of Realtors, *California Home Sales, Median Price Hit Record Highs in 1999* (February 9, 2000), downloaded from http://www.car.org/newsstand/news/feb00-0.html.
[88] California Department of Finance, *County/State Population and Housing Estimates, Official State Estimates* (1990-97), downloaded from www.dof.ca.gov/html/Demograp/e-1text.htm.
[89] Department of Housing and Community Development, *California's Housing Markets 1990-97: Statewide Housing Plan Update Phase II* (January 1999), p 92.
[90] Construction Industry Research Board, *Total New Housing Units in Building Permits, State of California, by County and Year* (January 28, 2000).
[91] Linda Wheaton, Housing Policy Specialist, Department of Housing and Community Development (February 16, 2000).
[92] California Budget Project calculations based upon Department of Housing and Community Development, *California's Housing Markets 1990-97: Statewide Housing Plan Update Phase II* (January 1999).
[93] Construction Industry Research Board (January 2000) and California Department of Finance, *1999 Statistical Abstract,* Table I-3.
[94] California Budget Project calculations based upon Employment Development Department, *County/State Population and Housing Estimates, Official State Estimates* and from *Employment by Industry, Annual Average* (2000), downloaded from http://www.calmis.cahwnet.gov/htmfile/subject/indtable.htm. Total nonfarm jobs.
[95] Paul G. Lewis & Elisa Barbour, *California Cities and the Local Sales Tax* (Public Policy Institute of California: 1999), p. 89.
[96] Janet Fairbanks, et al., "Restoring the Balance: Managing Fiscal Issues and Land Use Planning Decisions in California," *California Planning Roundtable* (1998) downloaded from http://www.cmcaplans.com/cprwww/docs/fiscal.htm.
[97] Michael S. MaRous, MAI, "Low-Income Housing in Our Backyards: What Happens to Residential Property Values?" *The Appraisal Journal* (January 1996), pp. 27-33.
[98] Paul M. Cummings and John D. Landis, *Relationships between Affordable Housing and Neighboring Property Values* (Working Paper 599, University of California, Berkeley, Institute of Urban and Regional Development: September 1993).
[99] Department of Housing and Community Development, *The Effects of Subsidized and Affordable Housing on Property Values: A Survey of Research* (1988), p. 1.
[100] California Budget Project analysis of the Current Population Survey.
[101] Jennifer Daskal, *In Search of Shelter: The Growing Shortage of Affordable Rental Housing* (Center on Budget and Policy Priorities: June 1998), p. 4.
[102] California Budget Project calculations based on US Census Bureau, *Historical Poverty Tables - People* for 1998 and the *Consolidated Federal Funds Report* for Federal Fiscal Year 1999**.**
[103] Kevin Williams, *The Long Wait: The Critical Shortage of Housing in California* (December 1999).
[104] As a condition of receiving assistance, property owners typically enter into contractual agreements with the federal government to maintain affordability for periods of 15 to 20 years.
[105] California Housing Partnership Corporation, *Preserving California's Housing Stock: A Risk Assessment of the Potential Loss of HUD-Assisted Multifamily Housing in California* (December 1999), pp. 6-8.
[106] California Housing Partnership Corporation, *Federally Assisted Multifamily Housing Prepayments Completed*

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[107] Department of Housing and Community Development, *California's Housing Markets 1990-97: Statewide Housing Plan Update Phase II* (January 1999), p. 107.
[108] California Housing Partnership Corporation, *Preserving California's Housing Stock: A Risk Assessment of the Potential Loss of HUD-Assisted Multifamily Housing in California* (December 1999), p. 3.
[109] Russ Schmunk, Analyst, California Department of Housing and Community Development (March 6, 2000).
[110] Franchise Tax Board, *State Tax Expenditure Estimates, Fiscal Years 1997-98 through 1999-00* (March 8, 1999).
[111] Unlike the state's former renters' credit, the current credit is not refundable and is limited to single taxpayers with incomes under $25,000 and married households with incomes under $50,000. Refundable tax credits provide benefits to taxpayers whose incomes are so low as to have no tax liability. The state does administer several programs providing tax relief to low income senior citizens. In 1999-00, the state spent $17.7 million on the Senior Citizens Property Tax Assistance Program, $17 million on the Senior Citizens Property Tax Deferral Program, and $66 million on the Senior Citizens Renters' Tax Assistance Program.
[112] Redevelopment refers to a provision of state law that allows local governments to establish "project areas" in blighted neighborhoods. Once a project area is established, the growth in property tax revenues within the area goes to fund housing and economic development. State law requires redevelopment agencies to set aside 20 percent of the growth in property tax revenues generated in a redevelopment area to increase, improve, or preserve the supply of low and moderate income housing. Under limited circumstances, the set-aside can be less than 20 percent if a community has no need for an increase in the stock of affordable housing. Redevelopment agencies' housing activities include housing construction, housing rehabilitation, payments to property owners in exchange for maintaining affordability ("affordability covenants"), and home ownership assistance (such as downpayment assistance).
[113] Department of Housing and Community Development, Division of Housing Policy Development, *Redevelopment Housing Activities in California Fiscal Year 1997-98* (May 1999), p. 5 and Jennifer Swenson, California Research Bureau, "Redevelopment Agencies' Housing Programs 'What the Numbers Say," testimony before the Senate Committee on Housing and Land Use (November 13, 1996).
[114] Department of Housing and Community Development, Division of Housing Policy Development, *Redevelopment Housing Activities in California Fiscal Year 1997-98* (May 1999), p. 14.