



Friends of Los Angeles County

RE: Move LA Affordable Housing Policy Brief

Thank you for the opportunity to share with you our thinking about a program that the legislature and local government agencies could approve that we believe will help address California's affordable housing crisis while also playing a role in reducing traffic congestion, vehicle miles traveled (VMT) and both air pollution and greenhouse gas emissions.

The crux of California's affordable housing crisis is the specific and severe shortage of below-market-rate housing affordable to lower and moderate income renter households.

Expanded market rate development, while perhaps important for other reasons, will not contribute in a significant way to solving the crisis of affordability for low and very-low income families.

To address both our air pollution and climate challenge Move LA recommends:

Affordable housing development should be a priority near transit services and should include safe and robust pedestrian and bicycle access as well as significant urban greening.

As a result of our affordable housing shortage, 1.7 million renter households with low, very low and extremely low incomes pay more than half of their incomes for housing. Another 1.2 million renter households—again, almost all low, very low, or extremely low income—pay more than 30% of their limited incomes for housing.¹ Many of these households are families of color.

This intolerable situation is a key driver of homelessness and leads to reduced educational achievement among children in such households and increased medical problems among household members. It is also related to greater exposure to and worsened outcomes for the coronavirus.

Addressing these families housing affordability concerns is a significant issue of equity and racial justice.

These problems impose serious social costs as well as significant financial costs on the public. California's senior population is especially at risk of intolerable housing cost burdens. According to UCLA's School of Public Health well over half of all senior renter households lack enough after rent income to afford even the minimum basic budget for other necessities of life.²

We believe:

- The affordable housing crisis can only be effectively addressed by a large increase in the amount of state and local resources devoted to affordable housing preservation and production, including both funding and public land, as well as efforts to spend our money more cost-effectively, including rent subsidies for at risk low income households.
- Inclusionary zoning requirements, while also important and should be supported, will not provide the number of units needed to provide meaningful relief.

Move LA recognizes that the Covid-19 emergency has created great uncertainty in the short run regarding the funding available to all levels of government to address this and other critical issues. However, meaningful progress in addressing California's affordable housing crisis requires both a near-term and a long-term commitment from all levels of government. We can begin now putting in place the legal and policy framework needed and some resources, while planning for an increase in resources.

¹ See, e.g., Feb. 2018 HCD Report at p. 27, Fig. 1.21 and Table 1.2 (reporting at the State level that more than one million "Extremely Low-Income/Below Poverty Line" renter households (76.9% of all such households), some 390,000 "Very Low-Income" renter households (47.4% of all such households), some 190,000 "Low-Income" renter households (16.9% of all such households), some 31,000 "Moderate-Income" renter households (5.3% of all such households), and some 18,000 "Above-Moderate Income" renter households (0.9% of all such households) pay more than 50% of their income in rent).

² See UCLA Elder Index, available at <http://healthpolicy.ucla.edu/programs/health-disparities/elder-health/Pages/eidd.aspx>



Recommendations for preserving existing and creating new affordable housing:

- 1. Preserving existing affordable housing is essential. It is a resource we cannot afford to lose.** Move LA urges the State to revise existing laws that encourage and/or permit the loss of existing housing affordable to lower and moderate-income households. Preserving the affordable housing we have is the best and least-cost strategy the public can pursue. Dangers to affordable housing preservation should be revised or repealed, e.g., the Ellis Act, Costa Hawkins, etc. When new housing, market rate or affordable, is built it should not entail the loss of existing affordable housing.
- 2. The State of California must create a new, large and ongoing source of funding for affordable housing.** This is a crisis the State has repeatedly characterized as a matter of Statewide concern. AB 3300 (Santiago) is good place for this dialogue to start but funding must follow.
- 3. The State of California should seek voter approval of a housing bond in November 2020 for early funding for affordable housing.** Such a bond will create current resources to help address a current crisis without relying solely upon current revenues. Such a bond can also be a stimulant to recovery from current COVID-19 crisis job losses. Still, our effort must be a multi-year effort requiring an ongoing and significant revenue source from both State and local governments.
- 4. All levels of government should be expected to commit to increased amounts of money and public land to cost-effective programs to create and preserve affordable housing.** Permissible uses for this new funding should include not only new construction and acquisition/rehabilitation projects, but also rent subsidy programs to achieve homelessness prevention.
- 5. When new affordable housing is created it must avoid displacement of existing families and existing affordable housing.**
- 6. New affordable units should provide first opportunities for occupancy to income qualified at risk families from within the nearby community** and, as a principle of restorative justice, to former residents of the community who are income qualified.
- 7. In addition, the State should issue bonds from time to time to obtain additional funds to accelerate acquisition of land for affordable housing** before land costs rise all the more, as well as to accelerate affordable housing production and preservation projects on State or local public land.
- 8. The State should act to ensure multifamily housing is a permitted use above the ground floor for commercially zoned properties on streets, boulevards or in downtowns in all California cities and counties.** SB 1385 (Caballero) and AB 3107 (Bloom) have started this discussion. Provisions should be included to avoid displacement of any existing residents, loss of existing rental units or displacement of existing locally-based commercial enterprises. Minimum inclusionary zoning requirements should be included with local jurisdictions able to impose greater requirements.
- 9. The State of California should make 100% affordable housing projects and housing for homeless people exempt from CEQA** except on lands that are inappropriate for development, e.g., wetlands, fire prone areas, contaminated areas, etc. AB 1907 (Santiago) has started this discussion.
- 10. In order to maximize the effectiveness of new state funding, a priority for use of such funding should be to match affordable housing funding committed by cities and/or counties.**



One opportunity to create such a matching arrangement (actually a triple match between the State, a county and a city) that Move LA recommends is for the State to offer to match from its affordable housing funds whatever amount of tax increment a county and city will devote to affordable housing when:

- a) A city and county agree to form an Enhanced Infrastructure Finance District (EIFD) or a Second Neighborhood Infill Finance and Transportation Infrastructure Act (NIFTI-2) District;
- b) The city and county agree that at least 30% of their combined property tax increment and sales /use tax within the district will go to affordable housing uses; and,
- c) The city agrees to contribute additional new city funds for affordable housing to the extent necessary to make the city's total contribution of tax increment and new monies for affordable housing equal to the county's tax increment contribution for affordable housing.

To enable such arrangements, the State should amend the statute which created the existing Second Neighborhood Infill Finance and Transportation Infrastructure Act (NIFTI-2) (originally SB 961 (Allen)) in several ways including making districts formed under that law able to be the recipients of State matching funds. This would focus production of affordable housing near transit and advance the State's VMT reduction and climate action goals.

9. The State should create realistic, achievable affordable housing targets for each local jurisdiction, and then ensure those targets are attained.

- a. Such targets should include preservation of existing affordable housing and homelessness prevention programs such as rent subsidy programs.
- b. The realistic, achievable target for a locality should be tied to the level of State resources that can be allocated to affordable housing there, combined with the assumption of reasonable local matching resources and the local imposition of inclusionary zoning requirements.
- c. If a locality fails to achieve a reasonable share of its target within a reasonable period, then the State should direct the resources allocated for that jurisdiction—plus a reasonable share of resources the State otherwise would have provided to that jurisdiction for other purposes—to private non-profit or for-profit developers to create by right 100% affordable housing projects within that jurisdiction.
- d. In addition, the State should make State-owned land within a local jurisdiction available to that local jurisdiction for it to create 100% affordable housing projects. If the local jurisdiction is a non-performing jurisdiction, the State itself should retain control of the land and work directly with developers to create by right 100% affordable housing projects.

What follows is our more detailed assessment of causes, challenges and opportunities.

Thank you.

Denny Zane
Executive Director
Move LA



Observations regarding California's Affordable Housing Crisis

In order to devise effective solutions to California's affordable housing crisis, it is important to identify the problem to be solved.

Move LA submits that California's affordable housing crisis is not the result of an overall shortage of housing but rather the result of a severe shortage of specifically below-market rate housing affordable to lower and moderate income Californians (the majority of Californians).

According to California's Department of Housing and Community Development, California has a deficit of some 3.5 million rental housing units affordable to lower and moderate income households.¹ 1.7 million lower and moderate income California renter households pay *more than half* of their limited incomes for housing and are *severely* housing cost burdened.² Another 1.2 million lower and moderate income California renter households pay more than 30% of their limited incomes for housing.³ A closer look at this data reveals several critical facts:

First, more than 97% of all severely housing cost burdened California renter households are either low, very low, or extremely low income and more than 63% of all severely housing cost burdened California renter households are extremely low income.⁴

Second, the consequences of any such burden also are greater the lower the income of a California renter household, as the Southern California Association of Governments ("SCAG") recently explained:

"the conditions of cost-burden have disproportionate impacts on lower income households. For example, a lower income household paying 40 percent of their income on housing has less remaining income available for other costs than that of a higher income household that spends the same percentage on housing. The lower the income of the household the more impact overpaying on household costs becomes."⁵

Third, housing cost burdens or severe cost burdens are a problem experienced by very few market rate renter households.

¹ See Feb. 2018 HCD Report, "California's Housing Future: Challenges and Opportunities, Final Statewide Housing Assessment 2025" ("Feb. 2018 HCD Report") at p. 30, Figure 1.25 entitled "Rental Housing Falls Short at All Income Levels, Except Above Moderate" (reporting at the State level the difference between the number of households at each income level and the number of existing units affordable to those households as follows: "Above Moderate (>120%) 300,000 unit surplus[:]; Moderate (80-120%) 61,000 unit shortfall[:]; Low Income (50-80%) 960,000 unit shortfall[:]; Very Low (30-50%) 1.5 million unit shortfall[:]; Extremely Low (<30%) 1.0 million unit shortfall"), available at https://www.hcd.ca.gov/policy-research/plans-reports/docs/SHA_MainDoc_2_15_Final.pdf.

² See, e.g., Feb. 2018 HCD Report at p. 27, Fig. 1.21 and Table 1.2 (reporting at the State level that more than one million "Extremely Low-Income/Below Poverty Line" renter households (76.9% of all such households), some 390,000 "Very Low-Income" renter households (47.4% of all such households), some 190,000 "Low-Income" renter households (16.9% of all such households), some 31,000 "Moderate-Income" renter households (5.3% of all such households), and some 18,000 "Above-Moderate Income" renter households (0.9% of all such households) pay more than 50% of their income in rent).

³ See, e.g., *id.*

⁴ See, e.g., *id.* at p. 27, Fig. 1.21 (providing by income category the number of severely housing cost burdened renter households); HCD Income Limits by County for 2019 (providing income limits for each household income category by County and household size), available at <https://www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits/docs/Income-Limits-2019.pdf>.

⁵ 8/2/19 SCAG Staff Report entitled "6th Cycle RHNA (Regional Housing Needs Assessment: Proposed Allocation Methodology for Public Comment," at p. 9.



Fourth, not surprisingly, the high cost of rental housing faced by lower income households is a major cause of homelessness, as both researchers and public officials recognize.⁶ And homelessness—when it occurs — takes a heavy toll on the mental and physical health of the impacted individuals.⁷ This, in turn, interferes with homeless children’s ability to learn.⁸ It also imposes substantial additional costs on the local community for increased medical and criminal justice services.⁹

Even when homelessness is avoided, cost burdened lower income households—and most especially severely cost-burdened lower income households—spend much less on food, on health care, and on their children’s development than they would if they had affordable rents.¹⁰

Research indicates that these conditions likewise can negatively impact the mental and physical health of the affected individuals, undermine academic attainment for impacted children, and thereby impose increased costs on the local community.¹¹ Ultimately, many of these housing-cost-burdened lower and moderate income household are forced to abandon their longtime homes and communities.

Fifth, these issues are particularly acute for California’s burgeoning senior renter population. Data compiled by the UCLA School of Public Health indicates that more than 65% of all single senior renters statewide—and more than 55% of all senior couples who rent statewide—*do not have enough after-rent income to meet even the minimum basic needs budget for all other life expenses.*¹²

California needs direct production of affordable housing

Increased construction of market-rate housing *by itself* cannot meaningfully address the crux of California’s affordable housing crisis, namely, that millions of California’s low and moderate-income households are either rent-burdened or severely rent burdened.

As the McKinsey Global Institute put it in 2016:

The tools that we have discussed—including identifying housing hot spots, unlocking supply by shifting incentives, and cutting the cost and risk of producing housing—could unlock millions of new market-rate housing units in California. This would expand housing supply and reduce housing costs for millions of Californians, but this will not solve the problem for California’s most vulnerable residents. Low-income, special needs, and homeless individuals will require support to access housing.¹³

⁶ See, e.g., Feb. 2018 HCD Report at App. A, p. 6 (citing research paper); Center on Budget and Policy Priorities, “How Housing Vouchers Can Help Address California’s Rental Crisis” (updated Feb. 12, 2016) (“2016 CBPP Whitepaper”) at text accompany footnote 11; United States Conference of Mayors, “2014 Report on Status of Hunger and Homelessness” at 2 (citing survey of officials from 25 cities nationwide).

⁷ See, e.g., Feb. 2018 HCD Report at App. A, pp. 7 (citing research papers); 2016 CBPP Whitepaper at text accompany footnote 14 (citing research papers).

⁸ See, e.g., 2016 CBPP Whitepaper at text accompany footnote 14 (citing research papers).

⁹ See, e.g., Feb. 2018 HCD Report at App. A, p. 6 (citing studies and research papers).

¹⁰ See, e.g., 2016 CBPP Whitepaper at text accompany footnotes 8-9 (citing research papers).

¹¹ See, e.g., 2016 CBPP Whitepaper at text accompany footnotes 14-15 (citing research papers); Center for Housing Policy, “The Impacts of Affordable Housing on Health: A research Summary” (Apr. 2015).

¹² See UCLA Elder Index, available at <http://healthpolicy.ucla.edu/programs/health-disparities/elder-health/Pages/eidd.aspx>

¹³ October 2016 McKinsey Global Institute, “A Tool Kit To Close California’s Housing Gap: 3.5 Million Homes By 2025” (“2016 McKinsey Report”) at p. 36 (italics added), available at <https://www.mckinsey.com/~media/McKinsey/Featured%20Insights/Urbanization/Closing%20Californias%20housing%20gap/Closing-Californias-housing-gap-Full-report.ashx>.



Examining the SCAG region’s performance on the RHNA targets in the 5th Cycle after first five years of a eight-year cycle makes clear that the region’s challenge is not a challenge to meet market rate production targets but really is more directly that of affordable housing production.

After five years the region has already met its “Above Moderate” or market rate housing targets for the eight year 5th Cycle but is far behind on meeting its affordable housing targets. While there may be other good reasons to expand market rate housing, success in market rate production has little consequence for affordable housing production. However, measures to increase the production of market-rate housing should be coupled with meaningful inclusionary zoning requirements.

Compare 5th Cycle Permits against 5th Cycle allocations

	Total Affordable	Total Above Moderate Income i.e., Market Rate	Total Units
Allocations SCAG 5 th Cycle 2014-2021	233,997	171,666	405,663
Permits SCAG 5 th Cycle 2014-2021 (as of 2018, a little over half the cycle)	47,196 (as of 2018, a little over half the cycle)	173,951 (as of 2018, a little over half the cycle)	221,147 (as of 2018, a little over half the cycle)
	20.2%	101.3%	

Still, inclusionary housing requirements cannot by themselves come close to addressing the housing affordability crisis facing the millions of lower and moderate-income renter households that face housing cost burden or severe housing cost burden. As HCD has recognized in setting RHNA targets for the upcoming Sixth Cycle, ***California needs the production far more of deed-restricted affordable housing units than market-rate units.***¹⁴

It is impossible to meet our affordable housing targets by inclusionary zoning requirements alone, or even to come close. For example, even if a 20% inclusionary housing requirement applied to every single market-rate housing development, achieving the Sixth RHNA Cycle market-rate housing target for the Southern California Association of Governments region would produce *less than 18% of the affordable housing target* for the same region.

California must make a focused effort on directly creating new affordable housing.

During the Great Recession the State of California cut spending on affordable housing and eliminated the primary source of local funding by ending redevelopment. Over the decade since, the State has not even restored the inadequate pre-Great Recession level of public investment in affordable housing, let alone made the increased investment necessary to effectively address the affordable housing crisis.¹⁵

¹⁴ See, e.g., 10/15/19 Letter from HCD to SCAG re Final Regional Housing Need Assessment (“SCAG Sixth RHNA Cycle Allocation”) at Attachment I (only 41.7% of SCAG RHNA target for Sixth Cycle is allocated to market-rate units, and 58.3% is allocated to lower and moderate income units), available at <https://www.hcd.ca.gov/community-development/housing-element/docs/SCAG-finaldetermination10152019.pdf>.

¹⁵ See, e.g., March 2020 California Housing Partnership “CALIFORNIA Affordable Housing Needs Report” (“2020 CHP Report”) at 3.



- **The State of California must greatly increase ongoing state funding for affordable housing efforts**, while finding ways to encourage cities and counties to also identify or develop new sources of funding for affordable housing.
- **The State of California should prioritize state funding expressly to match new commitments of local city and county funding for affordable housing**, thus encouraging local cities and counties to identify or develop funding for affordable housing. Cities and counties can compete for funds by proposing larger matches.

Here is a framework for a potentially effective strategic match between state and local government.

- **The State of California should agree to match tax increments with grants and loans devoted to affordable housing when a city and county form an Enhanced Infrastructure Finance District (EIFD)** that itself makes a commitment of 30% of the tax increment to affordable housing. This will encourage cities and counties to form such districts and commit a share of the tax increment to affordable housing.
- California should especially indicate its readiness to match with grants and loans affordable housing commitments made in the context of NIFTI-2 districts that bring such investments near transit services thus supporting California’s climate change commitments.

Prior to its elimination, redevelopment funds constituted the largest single source of affordable housing funding in the State.¹⁶ Subsequent efforts to recreate tax increment financing for affordable housing have met with very limited success to date.¹⁷ It appears that the single biggest obstacle is the need to obtain voluntary participation by the impacted taxing agencies.¹⁸

In an effort to overcome this obstacle we should *create the policy architecture for a triple match of new affordable housing funds*. Move LA recommends that:

- **The State offer to match from its affordable housing funds whatever share of the tax increment a county devotes to affordable housing when (1) a city and county agree to form an infrastructure finance district, (2) the city and county agree that at least 30% of their respective share of tax increment will go to affordable housing development and (3) the city agrees to contribute additional city funds for affordable housing such that its total contribution including its share of the tax increment matches the county contribution.**

Move LA believes that the prospect of such a *triple matching* of new affordable housing funds by city, county and State—which would highly leverage each level of government’s investment in affordable housing—should help incentivize cities and counties to undertake the formation of such infrastructure finance districts and contribute toward affordable housing programs.

¹⁶ See 2020 CHP Report at 3.

¹⁷ See, e.g., October 2019 League of Cities Report, “Redevelopment 2.0: Existing Laws, Pending Legislation and Legal Theory” (“2019 League of Cities Report”) at 7-13.

¹⁸ See, e.g., 2019 League of Cities Report at 7.



- **Move LA also recommends that the State should further incentivize the formation of these infrastructure districts** by agreeing to lend state housing funds up front for affordable housing subject to repayment through the tax increment.

In order to facilitate such a triple matching program, Move LA further recommends that the State amend the enabling legislation for NIFTI-2¹⁹ districts 1) to enable acceptance of matching affordable housing funding from the state and 2) to enable receipt of loans for affordable housing from the state to be repaid by tax increment funds.

- **State funds should not only be used to produce new affordable housing, it should also be used for homeless prevention programs, including rent subsidy programs**, as well as for new construction and acquisition and rehab projects.

In order to make the NIFTI-2 Districts a more fully appropriate vehicle for Move LA's recommended triple matching program, the State should make several amendments to the existing NIFTI-2 Act.

- First, the current provision requiring 40% of a NIFTI-2 district's tax increment go to affordable housing should be changed to require 30%, making agreements for matching funds more likely, mobilizing even more money for affordable housing.
- Second, the provision requiring that NIFTI-2 Districts be coterminous with the entire city or county forming the district must be eliminated.
- Third, the definition of affordable housing uses should be changed to permit tax increment financing—and triple matching—of homelessness prevention programs like rent subsidy programs.
- Fourth, additional protections should be put in place to avoid displacement of existing renters and the loss of existing affordable housing within the NIFTI-2 District, including suspension of the Ellis Act and a prohibition on demolishing housing occupied by renters within the prior ten years.
- Finally, if it is determined that the current protest procedure provided for under existing law would be a significant deterrent to the formation of NIFTI-2 Districts, then Move LA supports its elimination.

California should include preservation of affordable housing plus homeless prevention as a permitted use of state housing funds

The State has long recognized that the creation of deed restricted affordable housing, both new construction and acquisition/rehabilitation of existing buildings, as an appropriate use of affordable housing funding. California should use any new ongoing affordable housing funding for these purposes, especially to match local county and city affordable housing funding.

- **Such funding should also be used to match local funding for rent subsidy and other homelessness prevention programs that keep individuals in their existing homes.** Such programs can be more humane and more cost-effective than new construction or acquisition/rehabilitation programs.

For example, Santa Monica has launched a local rent subsidy program to keep seniors in their long-time rent controlled apartments with dignity. The pilot program includes several innovative design features intended to make the program as cost-effective as possible.

¹⁹ See California Government Code § 53398.75.7.



The State should use its ongoing affordable housing funds to match local resources put into such cost-effective rent subsidy programs and other homelessness prevention programs, with a priority for seniors, the disabled, and families with children.

New approach to RHNA allocations to local governments for affordable housing production

Current affordable housing targets are not realistically achievable, come with no State resources, ignore the importance of preserving existing affordable housing, and breed disregard by communities.

Instead, the State of California should:

- **Create and enforce realistically achievable targets for affordable housing production and preservation on the part of cities and counties tied to the level of State resources made available** and the expectation of a reasonable city and county resource commitments and the expectation of a local inclusionary zoning commitment.
- **The State of California should encourage affordable housing to be developed near transit services.**

As explained above, the crux of California's affordable housing crisis is the lack of housing affordable to lower and moderate California renter households. But, as presently constructed, these RHNA affordable housing targets are largely meaningless at best and counterproductive at worse.

First, absent a vast increase in State (and federal) resources for affordable housing, the affordable housing targets set by HCD for the Sixth RHNA cycle are wholly unobtainable.

To illustrate the utterly non-workable nature of current RHNA targets, my own community of Santa Monica—a city of less than 100,000 people—has a Sixth cycle RHNA allocation of 2,721 market rate units and 6,153 affordable units. In order to build all of the affordable units allocated through projects supported by City loans and Low Income Housing Tax Credits, it would require Santa Monica to spend close to 50% of its general fund on just these projects during each of the eight years in the upcoming Sixth RHNA cycle, and would require the State to use almost 12% of its total tax credit programs during that same eight year period just in this one small city. *The total cost would exceed \$4 billion.*²⁰

This unobtainable affordable housing target was set by HCD despite Santa Monica's historic commitment to affordable housing and its ongoing success in hitting all RHNA targets in both the 4th and 5th Cycles.

Second, the RHNA affordable housing targets are solely for the creation of new units and do not include the potentially more timely and more cost effective means of addressing the housing affordability crisis, like rent subsidies, and preservation of existing affordable housing through acquisition and rehabilitation.

Third, at present the RHNA process does little to assure that significant levels of affordable housing will in fact be created. No meaningful new State resources are committed despite the recognition of the enormous housing challenges and no meaningful incentives are created for localities to commit new resources or to impose inclusionary zoning requirements.

²⁰ These figures are based on the projected costs per unit of the two most recent projects in Santa Monica financed through a combination of loans from the City's Housing Trust Fund, Low Income Housing Tax Credits, and private sources; namely, the 1834/40/44/48 14th St. project (4/22/19) and the 1814 Pico project (2/11/19). Data for these projects is available at <https://www.santamonica.gov/housing-trust-funds>. The figures used for amount of annual Low Income Housing Tax Credits available in California are the 2018 figures found in the California Tax Credit Allocation Committee's "Program Overview", available at <https://www.treasurer.ca.gov/ctcac/program.pdf>.



Fourth, local assistance of lower and moderate income households through homelessness prevention programs such as rent subsidy programs, and through programs that preserve existing affordable housing units, should count toward satisfaction of these affordable housing targets.

Move LA recommends:

- **The State of California should create realistic affordable housing targets for each locality based on the level of state resources committed to each locality with the assumptions of local match and an inclusionary program.**

If a locality is not producing a reasonable share of achievable targets, the State should direct their affordable housing resources to developers to create 100% affordable housing projects in that locality. Such projects should be by right notwithstanding any contrary local law of the non-performing jurisdiction. The State also should cover a reasonable share of the cost of such projects from funds the State otherwise would have provided for other non-affordable housing purposes.

Thank you for considering our views.

A. J. Zane