

FEBRUARY 21, 2019

California's Housing and Homelessness Challenges in Context

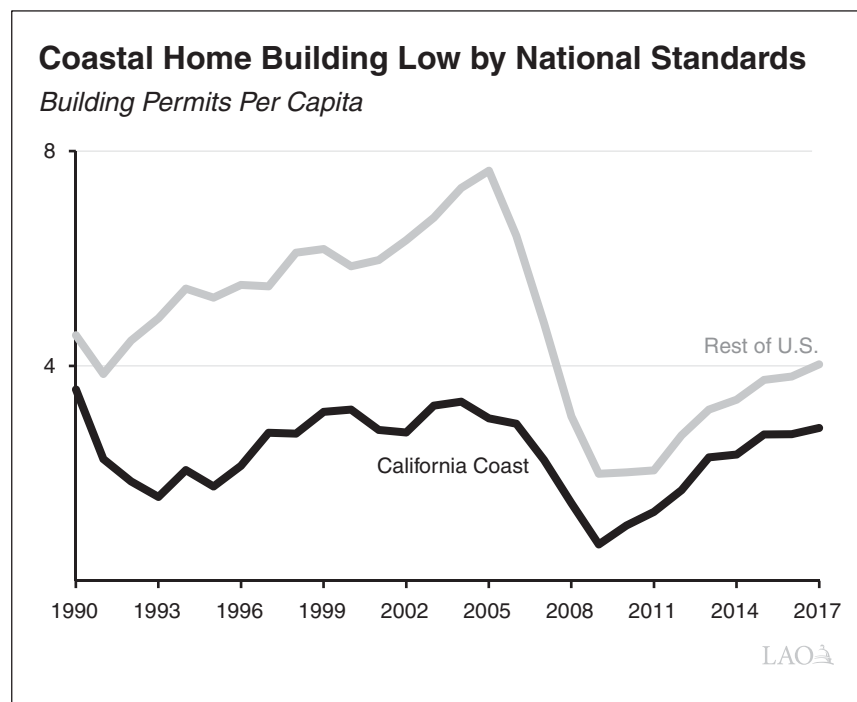
PRESENTED TO: Senate Budget and Fiscal Review Committee
Hon. Holly J. Mitchell, Chair



LEGISLATIVE ANALYST'S OFFICE

Building Less Housing Than People Demand Drives High Housing Costs

- **Housing Shortage Principal Driver of High Housing Costs.** While many factors have a role in driving California's high housing costs, the most important is the significant shortage of housing, particularly within coastal communities. Today, an average California home costs 2.5 times the national average. California's average monthly rent is about 50 percent higher than the rest of the country.
- **Housing Production.** California has historically built about 120,000 housing units each year. 114,000 permits were issued in 2018. For many years, production in coastal California has lagged national levels, as shown in the figure below.



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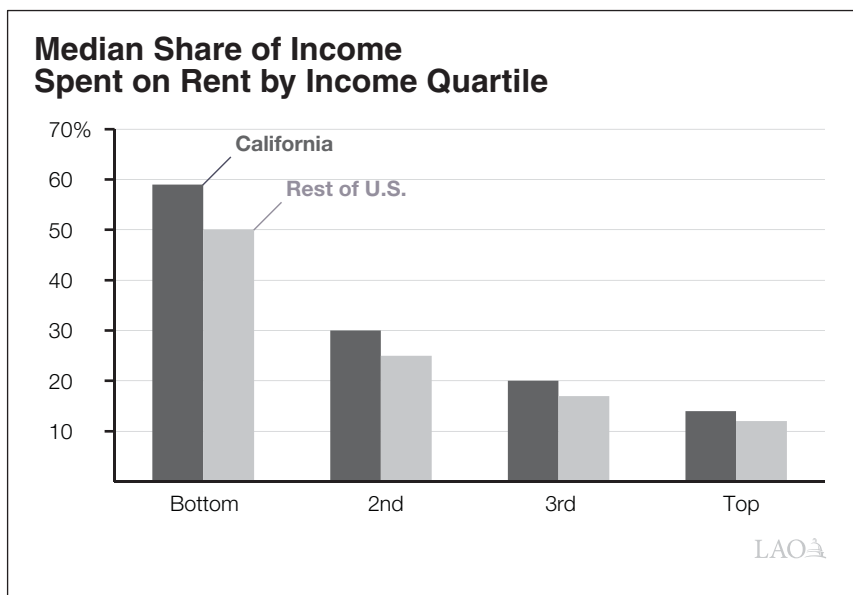
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- ***Estimating California's Housing Shortfall.*** Though the exact number of new housing units California needs to build to address housing affordability is uncertain, the general magnitude is enormous. Our prior research suggests that California needs to build about twice as much housing as it typically does each year to meet the demand for housing.
- ***Affordable Housing Production.*** Over the past 20 years, somewhere between 8,000 and 12,000 low-income affordable housing units have been built each year in California.



Many Households Have Difficulty Affording Housing in California

- **Californians Spend More on Housing Than Rest of Nation.** Californians spend a larger share of their income on rent than households in the rest of the nation at every income quartile. Households with the lowest income face the highest cost pressures, as shown in figure below.



- **High Housing Costs Increase State Poverty Rate.** High housing costs drive California’s official poverty rate from about 13 percent (slightly higher than average) to 19 percent (highest in the nation) under the Census Bureau’s Supplemental Poverty Measure, which takes into account food, clothing, shelter, and utilities.
- **Low-Income Households Face Highest Rent Burden.** Low-income households are the most likely to be cost burdened (spend more than 30 percent of their incomes on housing). In California, around 2.5 million low-income households are cost burdened. Over 1.5 million low-income renters face even more dire cost pressures—spending more than half of their income on housing.



Many Households Have Difficulty Affording Housing in California

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- ***Housing Affordability Challenges Even Middle-Income Households.*** High housing costs, particularly in California's coastal communities, have created cost burdens for some middle-income households. About one million households at or above California median income (households earning above \$70,000 annually) in the state are cost burdened (15 percent).



Need for Low-Income Housing Assistance Outstrips Resources

- The amount of resources supporting existing federal, state, and local affordable housing programs is not sufficient to assist all households in need of assistance.
- Around one-quarter (roughly 800,000) of low-income households live in subsidized affordable housing or receive housing vouchers.
- Affordable housing construction has historically accounted for only a small share of all new housing built each year.
- Most households receive no help from voucher programs. Those that do often find that it takes several years to get assistance. Roughly 700,000 households are on waiting lists for housing vouchers, almost twice the number of vouchers available.



California's Homeless Population

- **Housing Affordability Affects Homelessness.** Rising housing costs that have exceeded growth in wages, particularly for low-income households, put Californians at risk of housing instability and homelessness.
- **Low-Income Households Face Highest Risk of Housing Instability and Homelessness.** Those who pay at least half of their income toward housing are at greatest risk. In California, this applies to 1.5 million low-income households. For this population, job loss or an unexpected expense could result in homelessness.
- **California Has a Disproportionate Share of Homeless Population.** California has more people experiencing homelessness than any other state in the nation. As of January 2018, California had about 130,000 homeless individuals, which represented about 25 percent of the total homeless population in the nation. (California's overall population, however, is about 12 percent of the nation.)
- **Characteristics of Homeless Population.** Of California's homeless population, about 21,000 are in families with children, 11,000 are veterans, and 12,000 are unaccompanied young adults (aged 18 through 24). Across these groups, 33,000 are individuals experiencing chronic homelessness.
- **Unsheltered Homeless Population.** In addition to having the highest number of homeless individuals, California has the highest proportion (69 percent) of unsheltered homeless individuals of any state in the nation. Based on estimates of the cost to operate a bed in a shelter for a single year, sheltering all homeless individuals would cost \$2 billion to \$3 billion annually.



Recent Major State Action

Legislature Adopted Major Housing Package in 2017

- **Housing Package.** In 2017, the Legislature passed a package of 15 bills aimed at addressing the high cost of housing in California. This package included two new funding sources for construction and rehabilitation of below market rate housing, as well as changes intended to streamline local approvals of new housing and encourage cities and counties to plan for and approve more housing.

Major Legislative and Budget Actions in 2018

- **Regional Housing Needs Assessment and Housing Element—Related Legislation.** Legislation passed in 2018 revamped the process regional governments use to allocate state housing targets to each city, as well as altered the methodology for setting state housing targets.
- **Homelessness Emergency Aid Program (HEAP).** The 2018-19 budget provided \$500 million one-time General Fund to establish HEAP. The 11 most populous cities in the state and Continuums of Care (CoC)—local entities that administer housing assistance programs within a particular area, often a county or group of counties—are eligible for these funds, which can be used for a variety of short-term housing solutions for the homeless.



Recent Major State Action

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Voter Approved Ballot Measures

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



Conversations on Housing and Homelessness

The enormity of California’s housing and homelessness challenges suggests that policymakers explore a variety of solutions. Below we identify possible responses being discussed by the Legislature and/or stakeholders.

- Expanding State Housing and Homelessness Programs
- Reforming Local Zoning Laws
- Altering Allocation of Local Taxes
- Reforming Local Impact Fees
- Streamlining California Environmental Quality Act (CEQA)
- Tying State Funding to Local Housing Production
- Rent Regulation and Tenant Protections
- Expanding Tax Increment Financing Options
- Lowering Voter-Approval Thresholds for Local Taxes

