CALIFORNIA GENERAL ELECTION

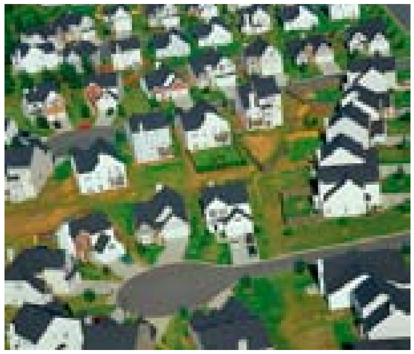
September 2006

Reason

Addressing California's Affordable Housing Shortage: Alternatives to Proposition 1C

By Leonard C. Gilroy, AICP, Adam B. Summers, and Samuel R. Staley, Ph.D.









POLICY BRIEF 47

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Executive Summary

The severe shortage of affordable housing in California threatens the state's economic health and has placed the American Dream of homeownership out of reach for hundreds of thousands of families. Declining federal support for housing programs over the last several decades has prompted calls for increased state funding for affordable housing in California. Rather than establishing a fiscally responsible ongoing revenue stream to fund the state's affordable housing programs, California policymakers have repeatedly asked voters to approve one-time influxes of bond funding, violating a basic principle of public finance: long-term debt should be used to fund long-term investments, not the operating expenditures of state programs.

If approved by voters this November, Proposition 1C would become the latest in a string of housing bond measures that have failed to substantively address the state's housing affordability crisis. It would authorize $2.85 billion in general obligation debt with an annual debt service of $204 million (and a total cost to taxpayers of about $6.1 billion) for the following purposes:

- $1.35 billion to fund housing projects predominantly in urban areas and near public transportation systems. Funds could be used for a myriad of purposes, including parks, water systems, transportation, and housing.
- $625 million to fund taxpayer-subsidized loans and grants to encourage homeownership of low- and moderate-income homebuyers.

- $590 million to fund taxpayer-subsidized loans for high-density multi-family housing that reserves units for low-income housing, with priority given to projects located in urban cores and near existing public services.
- $185 million in taxpayer-subsidized grants and loans to fund homeless shelters and housing for farm workers, and to those that develop, own, lend to, or invest in affordable housing.
- $100 million will be deposited into the newly-created Affordable Housing Innovation Fund to pay for grants and loans for affordable housing pilot projects.

Like most of the political remedies aimed at increasing the affordable housing stock, Proposition 1C fails to reflect the real-world functioning of housing markets and could exacerbate the affordability problem. Specifically, Proposition 1C:

- Fails to address the root cause of California's housing affordability crisis: the severe, ongoing shortage of new housing, which is largely attributable to the myriad of state and local land-use regulations that make it difficult for new housing to be approved and built. The severe mismatch between supply and demand has helped to drive up the cost of housing statewide and has produced a shortage estimated between 600,000 and 1 million housing units.
- Directs very little of the bond money to anything actually resembling infrastructure. Almost half of Proposition 1C—$1.35 billion—would fund new programs to promote urban infill and transit-oriented developments (TODs) and to acquire parkland. An additional 22 percent ($625 million) would be targeted to existing homeownership assistance programs via down payment assistance to homebuyers through low-interest loans or grants.
- Perpetuates the misconception that the poor need high-quality *new* housing made artificially cheap through legislation and regulation. This practice contradicts the well-established concept of the “housing ladder”—affordable housing is created when existing homeowners upgrade to newer, higher-quality units, placing older, lower-quality units on the market for young and first-time homeowners.
- Subsidizes housing, creating new demand in a market that is already experiencing a dearth in supply and potentially *increasing* the housing shortage.
- Places an overwhelming focus on promoting transit-oriented development, which has little to do with addressing the housing affordability crisis and more to do with reengineering society with the aim of getting citizens to make the “right” transportation, housing, and land-use choices.

Alternative policies that do not require significant new spending and have a much greater likelihood of succeeding include: deregulating the land market to allow more market-driven densities and development, eliminating costly and wasteful building codes that do not measurably improve public health and safety, repealing prevailing wage laws that dramatically increase the cost of building new affordable housing, and avoiding new subsidies for high-income housing projects, such as transit-oriented development. Further, policymakers should separate the larger issue of housing affordability from efforts to provide a housing “safety net” for the needy through the construction of new shelters for homeless persons, foster children, domestic violence victims, and others. Safety net programs are best addressed through the regular budgeting process, as bond funding is a fiscally irresponsible method of financing ongoing government programs.

Like the numerous affordable housing bonds and programs before it, Proposition 1C would do little to address the problem of low-income homeownership and would likely worsen the situation. California’s affordable housing problem is largely a creature of government’s own making. Increasing the costs of housing, and then throwing an additional $2.85 billion of taxpayers’ money at the problems government has exacerbated in the first place, simply does not make any sense.

For more information on this issue and others on California's November Ballot, go to reason.org/californiaballot/

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Part I

Introduction

Despite the record-high national homeownership rate that has brought the American Dream into reach for tens of millions of families, California continues to suffer from a lack of affordable housing. In more and more communities, escalating housing prices have pushed homeownership well beyond the reach of blue-collar and professional workers, including firemen, policemen, school teachers, and even urban planners. This crisis is particularly acute in California's major urbanized and coastal areas—Southern California, the San Francisco Bay Area, Sacramento, etc.—where over 80 percent of the state's population lives.

While the real estate boom over the last decade contributed to skyrocketing housing prices, California's affordable housing shortage is exacerbated by numerous regulatory and political barriers to new housing development that severely limit housing supply. Sometimes these barriers are intentional: local jurisdictions purposely use the planning process to limit the number of affordable and middle-income homes that can be built to promote high-income housing. In other cases, these barriers are unintentional (e.g., impact fees to fund public projects) or a side effect of applying a highly politicized land development process to housing (e.g., compliance costs associated with excessive environmental regulation). Unfortunately, most of the political remedies aimed at increasing the affordable housing stock fail to reflect the real-world functioning of housing markets or the oppressive nature of most local land use regulations, and wind up making the problem worse.

Declining federal support for housing programs over the last several decades has prompted calls in California for increased state funding for affordable housing. Indeed, California has a rich history of going to the ballot box to fund "pay as you go" programs like housing (see Table 1, appendix). The state government, in particular, has overwhelmingly relied on the issuance of general obligation bonds to fund state affordable housing programs even as state elected officials have consistently balked at establishing a fiscally responsible ongoing revenue stream to fund them. This behavior is a violation of a basic principle of public finance: long-term debt should be used to fund long-term investments, not the operating expenditures of state programs. Nevertheless, California policymakers have repeatedly asked voters to approve one-time influxes of bond funding.

Table 1: California Housing Bond Measures		
Bond Measure	**Year**	**Total (millions)**
Proposition 77	1988	$150
Proposition 84	1988	300
Proposition 107	1990	150
Proposition 46	2002	2,100
Proposition 1C*	2006	2,850
Total		$5,550

* on the November 2006 ballot

Note: See appendix for details on the contents of each measure.

Proposition 1C—the $2.85 billion housing bond that California voters will vote on in November—is the latest in a string of ill-conceived state bond measures targeted at affordable housing (see appendix). While Proposition 1C may lead to the development of limited numbers of new affordable housing units in some communities, it will not spur the large-scale development of housing needed to address the supply/demand mismatch that now totals upwards of 1 million needed housing units. Further, it completely fails to substantively address the root causes of the affordable housing crisis plaguing California's urban areas.

Alternative policies that do not require significant new spending and have a greater likelihood of succeeding include: deregulating the land market to allow more market-driven densities and development, eliminating costly and wasteful building codes that do not measurably improve public health and safety, repealing prevailing wage laws that dramatically increase the cost of building, and avoiding subsidies for high-income housing projects such as transit-oriented development.

Part 2

Proposition 1C Overview

The California Secretary of State prepared the following ballot summary for Proposition 1C:

> *For the purpose of providing shelters for battered women and their children, clean and safe housing for low-income senior citizens; homeownership assistance for the disabled, military veterans, and working families; and repairs and accessibility improvements to apartments for families and disabled citizens, the state shall issue bonds totaling two billion eight hundred fifty million dollars ($2,850,000,000) paid from existing state funds at an average annual cost of two hundred and four million dollars ($204,000,000) per year over the 30 year life of the bonds. Requires reporting and publication of annual independent audited reports showing use of funds, and limits administration and overhead costs.*

It will cost an estimated $6.1 billion over 30 years to pay off both the principal and interest on these bonds. Table 2 details the allocation of Proposition 1C funds.

In 2002, state voters approved Proposition 46, which provided a total of $2.1 billion in general obligation bonds to fund state affordable housing programs. Roughly half of Proposition 1C's funds—$1.4 billion—would replenish funds in existing programs established by Proposition 46 funds have already been spent. Spending on existing programs breaks into three main categories:

- $625 million for downpayment assistance programs;
- $590 million for programs that offer low-interest loans for the construction or renovation of rental housing projects; and
- $185 million for homeless shelters and farmworker housing.

An additional $100 million would be allocated for a new Affordable Housing Innovation Fund, which would offer grants and loans for pilot projects to develop lower-cost housing construction.

Table 2: Proposition 1C Funding Breakdown		
Total (millions)	**Program**	**Description**
Affordable Housing Programs		
$345	Multifamily Housing Program	Low-interest loans for development of affordable rental housing; development of units for disabled populations that are homeless or at risk of homelessness.
$50	Emergency Housing Assistance Program	Deferred development loans for rehabilitation, acquisition and/or new construction of emergency shelters and transitional housing facilities (including qualified safe havens) for the homeless.
$50	Homeless youth	Low-interest loans for housing projects which provide housing for homeless young people.
$195	Supportive Housing Program	Low-interest loans for housing projects which also provide health and social services to low-income renters.
$135	Farmworker Housing Grant Program	Low-interest loans and grants for developing housing for farmworkers.
$300	CalHome Program	Variety of homeownership programs for low-income households; includes $10 million in grants to organizations that assist low- or moderate-income households in building or renovating their own homes.
$200	California Homebuyer's Downpayment Assistance Program	Deferred low-interest loans up to 6 percent of home purchase price for first-time low- or moderate-income homebuyers.
$125	Building Equity and Growth in Neighborhoods Program	Grants to local governments that reduce barriers to affordable housing. Funds would be used for homebuyer assistance.
$100	Affordable Housing Innovation Fund*	Grants and loans for pilot projects to develop housing at reduced costs.
Infill Development/Transit-Oriented Development Programs		
$850	Regional Planning, Housing and Infill Incentive Account*	Grants for various projects—including parks, water, sewer, transportation, and environmental cleanup—to facilitate urban infill development. Up to $200 million of the total will be earmarked for the development of urban parks.
$300	Transit-Oriented Development Implementation Program*	Grants and loans to local governments and developers to encourage dense development near public transportation.
$200	Housing Urban-Suburban-and-Rural Parks Account*	Grant funding for parks throughout the state.
$2,850		

* denotes new program

Almost all of the remaining half of Proposition 1C—$1.35 billion—would fund two new programs to promote urban infill and transit-oriented developments (TODs). The first provides $850 million to facilitate urban infill development through grants for various projects including parks, water, sewer, transportation, and brownfield cleanup. The second program provides $300 million for transit-oriented development projects which specifically promote the development of housing near public transit. The remaining $200 million would be allocated for new parks.

A broad coalition of groups has lined up in support of Proposition 1C, including the California Human Development Corporation, the California Housing Partnership Corporation, AARP, and the California Chamber of Commerce. Notably, many of the groups endorsing the initiative are also likely to financially benefit from its approval.

Part 3

Problems with the Bond's Approach

A. The Economics of Affordable Housing: Supply and Demand

The high cost of housing in California results from an imbalance between supply and demand. Specifically, there is a shortage of housing, and a substantial part of this shortage can be attributed to local land-use regulations. Local development regulations limit the supply of land available for residential development and increase the length of time necessary for development approval. Impact fees and other regulations also significantly increase costs, reducing incentives for builders to create new housing. These effects are particularly strong in the "low margin" segments of the housing market that cater to the needs of lower-income households.

According to the California Association of Realtors' 2006 Housing Market Forecast, California typically adds nearly 250,000 new households to the state's population annually. Yet, California builders will add just 200,000 housing units to the statewide housing stock this year, creating a shortfall of about 50,000 units. Given that this supply shortage has been a long-standing trend, the real housing gap totals in the hundreds of thousands to well over a million units.

First, there's not enough funding in the bond to even scratch the surface of the affordable housing problem even in the unlikely event the programs were implemented at their maximum effectiveness. According to a 2005 report by Housing California, the state backlog of affordable home production is over 651,000 units. The state needs to build 52,000 units of affordable housing annually just to keep up with the growth of California households earning less than $41,000 per year. Senate Bill 1689, which established Proposition 1C, claims the funding approved by the state's voters in 2002 under Proposition 46 financed the construction, rehabilitation, or preservation of only 17,700 affordable apartments, created or rehabilitated 9,055 shelter spaces, and helped nearly 18,000 families become or remain homeowners. Thus, at most, a little more than 10,000 households annually may have benefited from this program, a drop in the bucket considering the existing backlog and increasing demand. If these numbers are accurate, it is likely that Proposition 1C would have a similarly scaled impact, a barely detectable improvement in affordable housing in California.

Proposition 1C does nothing meaningful to address the fundamental supply/demand mismatch problem. While the proposition attempts to provide assistance to a very narrow, targeted group of low-income households, the core of California's affordability crisis is a lack of housing for larger and larger segments of the working, professional, and middle class. As these groups attempt to use hard-earned savings to advance in the housing market, they are forced to find housing in the existing market. If they can't find new housing they compete for existing housing—the same homes that often house the disabled, the elderly, and low-income households today.

Zoning and other land use restrictions such as growth boundaries restrict supply and increase housing prices. Relaxing zoning regulations will free up more space for housing and lead to a greater variety of cheaper housing options for consumers to choose from. Even in so-called "smart growth" communities, urban planning does less to facilitate meeting new housing needs than preserve the existing land use patterns. The result, as in the case of Ventura County just north of Los Angeles, is a dramatic housing shortage. Moreover, other studies have found that the added burdens of land use regulations can add 20 percent or more to the cost of housing.

Building codes, impact fees, and other regulations imposed on developers similarly raise prices, as they increase costs for the developer who them passes on these costs to consumers. The state's "prevailing wage" regulations, for example, increase low-income housing costs in California by between 9 and 37 percent.[1] These regulations require building contractors to pay employees the prevailing wage (in effect, the wages earned by comparable labor union workers), which are typically much higher than the competitive wages workers would earn in a free market. This benefits skilled, middle-income workers at the expense of low-income earners seeking housing. In 2001, the California State Legislature passed SB 975, which expanded the state's existing prevailing wage law to include virtually all affordable housing programs, thus ensuring that housing would be even less affordable to those who need it most.

Some things are simply beyond the control of state and local governments. The monetary policies of Federal Reserve, for example, significantly affect interest rates, which in turn affect consumer borrowing and the housing market. In recent years, some believe, the Fed created a housing bubble by bringing about "below-market" interest rates (rates lower than would occur in the absence of Fed manipulation), encouraging borrowing by people who couldn't really afford homes. The surge in borrowing led to an explosion in risky lending products such as adjustable rate mortgages (ARMs), zero-percent (no down payment) mortgages, and interest-only mortgages. Evidence from real estate markets across the country suggests that now the bubble is starting to pop. As interest rates have risen over the past couple of years, the famous "froth" in the housing market that former Fed Chairman Alan Greenspan referred to last summer is beginning to spill over the edge and, as they struggle to make their mortgage payments, more and more homeowners are starting to realize that they can't really afford their homes after all. In short, there may be many more people in the near future seeking "affordable housing."

B. Not Really an Infrastructure Bond

While Proposition 1C is being sold as one of a set of "infrastructure" bonds, in reality very little of the money goes to infrastructure. Indeed, the bond initiative contradicts a basic principle of public finance. Long-term debt—bonds—should be used to cover major capital expenditures where costs need to be spread out over many years. Using the bonds to fund operating costs is the equivalent of a family financing its "milk money" on credit cards. And that's what Proposition 1C does. The bond funds will go to numerous housing programs that are properly considered part of the operating expenses that should be prioritized during the regular budget process. Indeed, many of these programs, including homeownership/mortgage assistance, affordable housing subsidies, and programs for various disadvantaged groups, are existing, ongoing programs or are already included in the state's general fund budgets. For example, 22 percent ($625 million) of Propostion 1C's funding is targeted to homeownership assistance programs via down payment assistance to homebuyers through low-interest loans or grants. This hardly qualifies as infrastructure development. Thus, Proposition 1C is simply another example of the bad habit of budgeting by constitutional amendment, a fiscally unsustainable process that is mortgaging the future of California's children.

C. The Drawbacks of Bond Financing

Bond funding is also a poor way to finance ongoing government programs like those in the general fund. It is expensive (interest payments make it nearly twice the cost of the principal), places an unfair debt burden on future generations, and represents a cop-out by legislators unwilling to make difficult decisions to provide funding through the normal budgeting process. This gives politicians greater incentives to spend money irresponsibly on pet projects and programs and then rely upon desperate voters to fund "critical" programs, such as affordable housing.

A proper use of bonds is to fund large-scale capital improvements, but housing assistance for individuals hardly fits the definition of infrastructure. If such massive funding for what are essentially social programs is desired, the proper place for it is in the regular budgeting process.

D. Ignoring the "Housing Ladder"

One of the greatest misconceptions of the housing bond proponents is that the poor need affordable *new* housing. In fact, historically, housing and move up to better-quality accommodations to lower income individuals and families move from inexpensive modest *used* homes into better-quality accommodations as they advance up the economic ladder in general. Affordable housing supporters are taking the wrong approach by trying to take high-quality new housing and make it artificially cheap through legislation and regulation. Currently, the *existing* housing stock accounts for approximately 13.3 million housing units. Thus, new housing contributes an average of 1.5 percent to the total housing stock annually. Naturally, construction will gravitate to the segments of the housing market willing and able to pay for new housing. In the long run, the most important factor influencing the availability of affordable housing for lower-income groups is the *total stock* of housing in the state. According to Harvard University Professor Howard Husock, "Perversely, housing reformers invariably make matters worse by banning the conditions that shock them. Insisting unrealistically on standards beyond the financial means of the poor, they help create housing shortages, which they then seek to remedy through public subsidies."[2] Husock continues: "We would understand that modest housing is a stage that people pass through—and that, by trying to stamp it out, we threaten to short-circuit the process by which they improve themselves."[3]

For the portion of Proposition 1C that is dedicated to "infrastructure" in some fashion, it is heavily targeted at new infill and transit-oriented development projects. But this approach contradicts the "housing ladder." Affordable housing is created when existing homeowners upgrade to newer, higher-quality units, placing older, lower-quality units on the market for young and first-time homeowners. New housing is not affordable housing.

Government subsidies for housing could create an environment where there may *never* be enough "affordable housing." If government subsidizes housing, there will always be a shortage because consumers will always want housing at below-market prices.

E. The Harmful Effects of Housing Welfare

As with other types of welfare programs, subsidizing housing is damaging because it encourages an entitlement mentality and diminishes the incentive to earn enough money to pay for the real costs of a home.

In fact, government subsidies for housing could create an environment where there may *never* be enough "affordable housing." If government subsidizes housing, there will always be a shortage because consumers will always want housing at below-market prices. The subsidies create the false impression that is cheaper to build than it really is, and demand for the new housing simply increases. The subsidy creates a spiral toward escalating housing costs that could create a perpetual housing shortage. This is particularly true in California where subsidizing housing will only create new demand for housing in a market that already is experiencing a dearth in supply. Thus, subsidizing housing can actually *increase* the shortage of housing. As Harvard University Professor Howard Husock has suggested, "Maybe our housing programs haven't failed because of some minor management problem but because they are flawed at the core. The truth is, devoting government resources to subsidized housing for the poor—whether in the form of public housing or even housing vouchers—is not just unnecessary but also counterproductive. It not only derails what the private market can do on its own, but more significantly, it has profoundly destructive unintended consequences."[4]

F. The Illusion of Transit-Oriented Development (TOD)

The overwhelming focus on promoting transit-oriented development has little to do with addressing the housing affordability crisis and far more to do with reengineering society with the aim of getting citizens to make the "right" transportation, housing, and land-use choices. TOD projects are expensive to build, would require significant ongoing subsidies for any affordable housing component, and are typically designed to target the market of young, affluent professionals interested in urban living and cultural opportunities.

In addition, the notion that transit-oriented development will significantly improve employment opportunities for the poor is a myth. Public transportation simply is not able to provide the transportation solutions the working poor need. Commuting patterns are more varied and complex than ever (suburbs to downtown, downtown to the suburbs, where an increasing share of jobs are, suburbs to suburbs) and public transportation does not have the capacity to meet the changing needs of most workers, poor or otherwise. No wonder transit's share of urban motorized travel has decreased by more than 40 percent since 1980.[5]

Part 4

Addressing California's Affordable Housing Shortage: Alternatives to Proposition 1C

Proposition 1C is unlikely to achieve the goals of its proponents because it does not address the fundamental barriers to providing affordable housing in California. Policymakers and citizens must look at initiatives that have broad-based impacts and move away from government programs that funnel relatively meager resources toward targeted special interests.

A. Remove Regulatory Barriers to Housing Production

A growing body of academic research, including several national studies conducted by Harvard University Professor Edward Glaeser, suggests that land use regulation is a significant contributor to high housing prices, particularly in coastal metropolitan areas like the San Francisco Bay Area and the Los Angeles and San Diego metropolitan areas. Examples of land use controls include urban growth boundaries, growth moratoria, lengthy and elaborate development and environmental review processes, and high development impact fees. In addition, California citizens in many areas have shown a tendency—through ballot-box zoning and NIMBY (Not In My Back Yard) resistance—to oppose new housing developments to prevent growth and preserve open space and environmental quality. Loosening regulatory controls like growth boundaries or moratoria and streamlining the development review process would certainly result in increased "for sale" housing construction that would help to relieve pricing pressures evident in high-cost markets. For example, San Jose State University economists Benjamin Powell and Edward Stringham estimate that inclusionary zoning provisions have already reduced housing production by 17,269 units in just eight Southern California cities. A study of planning approvals in Ventura County discovered that new housing projects were approved at just 68 percent of the planned densities based on the comprehensive plan. In some cases, approved densities were lowered because of changing market conditions, but the local politics inherent in California's planning process were critical factors as well.

B. Repeal Unnecessary Building Codes and Regulations

Building codes and regulations add significant costs to housing construction, resulting in significantly higher prices. While we would all love to live in spacious homes with nice kitchens and extra bathrooms, these amenities do not come cheap. Many low- and even middle-income families would gladly give up some these extras for the chance to actually afford a home. A modest home is better than no home at all. Thus, state and local governments should repeal building codes and regulations that do not address significant health and safety issues to provide prospective homebuyers with greater choice and affordability. Regulatory reform should de-emphasize requirements for specific types of technologies such as plastic or metal pipes. Rather, building regulations should focus on tangible, measurable performance criteria that are tied directly to demonstrable health and safety concerns.

C. Repeal State "Prevailing Wage" Laws

One specific type of regulation that has a substantial effect on housing prices is prevailing wage laws. When SB 975 passed in 2001 and expanded California's prevailing wage laws to include virtually all affordable housing projects, it struck a blow to homeownership for those most in need of it. Studies have shown that these regulations alone can increase housing costs between 9 and 37 percent.[6] While they may be a boon to construction workers, they benefit these employees at the expense of low-income families. These, too, should be eliminated.

D. Reject Welfare as the Solution to Housing Problems

We have seen what happens when government tries to solve housing problems: dilapidated housing projects, crime-ridden neighborhoods, and a vicious cycle of dependency for those on the receiving end of government aid. Such scenes, repeated in metropolitan areas across the country, do not happen merely by accident or coincidence. Government subsidies or other handouts foster an entitlement mentality and reduce incentives to work and save to one day own a home. When a government is the landlord, or directs affordable housing projects, it has no incentive to minimize costs and keep its tenants happy, only bureaucratic mandates. Government should allow the free market to provide the mix of housing choices consumers demand.

E. Fund Safety Net Programs through the Regular Budgeting Process

It is important to separate the larger issue of housing affordability from efforts to provide a safety net for those most in need (via shelters for homeless persons, foster children, victims of domestic violence, and others). The marketing behind Proposition 1C—particularly in its ballot language (see the Proposition Overview on page 3) and the statements of support from its proponents—gives the impression that its aim is the latter, when in reality less than 28 percent of the bond's funds would actually be allocated to these safety net programs. The bulk of Proposition 1C's funds are directed toward mortgage assistance, affordable housing grants and loans, and the promotion of infill and transit-oriented development. In other words, Proposition 1C will focus less on providing shelter for those most in need and more on funding programs that will likely exacerbate California's housing affordability problem.

If the legislature is serious about its intention to support the safety net programs contained within Proposition 1C, then it could do so in a far more fiscally responsible manner by funding them through the regular budgeting process. As discussed earlier, bond funding is most appropriate for large-scale capital expenditures and is a poor way to finance ongoing government programs.

Proposition 1C would do little to address the problem of low-income homeownership, and would likely make things worse.

F. Reject Transit-Oriented Development Incentives

Central planners are enamored of the myth that if only they could force more people into smaller areas with public transportation, they could allow more people access to jobs and reduce congestion. The trouble is that commuting patterns are so varied and complex that government would need virtually unlimited funds to establish a public transportation network vast enough to get everyone where they wanted to go. Consequently, the overwhelming majority of people must rely on their cars to get themselves to work, to run errands, or to go out to dinner and a movie. Concentrating more people with cars in one spot, then, can actually *increase* congestion. Even assuming that government could achieve a totally comprehensive public transportation network (and making the extraordinary assumption that a government agency could operate such a network efficiently), there would be so many stops along the way that it would be too inconvenient.

Fortunately, there are much cheaper and easier solutions. Where they have been allowed to operate, entrepreneurs have been very innovative in serving people's transportation needs. Private paratransit services, such as door-to-door jitneys and vanpools, provide people with more transportation options, and are often cheaper than public transportation. They need not replace transit altogether, and actually serve as a supplement to public transportation, solving the "first mile" problem of getting people from their doorsteps to public transportation centers, where they may continue on to their destinations. Unfortunately, regulations such as occupational licensing laws have prevented many of these services from being provided. Removing these restrictions would allow people more transportation options and, in doing so, offer them greater access to job markets and economic opportunities.

Part 5

Conclusion

Affordable housing is certainly a great concern, but it is, in large part, a creature of governments' own making. Regulations have significantly increased the cost of building a home, and further increased prices to consumers by restricting the amount of land available to build on. As a result, the private market is producing 50,000 fewer housing units than necessary on an annual basis to meet rising demand in California. The laws of economics simply won't allow government to have it both ways: cheap, affordable homes and burdensome regulations. Those most hurt by these policies are those at the bottom who are simply priced out of the market as higher-income groups compete for a smaller and smaller relative share of the existing home market.

Proposition 1C supporters, and affordable housing advocates in general, take the wrong approach by insisting that affordable housing be new and of equal quality to higher-priced housing. This contradicts the well-established concept of the "housing ladder"-affordable housing is created when existing homeowners upgrade to newer, higher-quality units, placing older, lower-quality units on the market for young and first-time homeowners. The most important factor influencing the availability of affordable housing for lower-income groups is the total stock of housing in the state.

Increasing the costs of housing, and then throwing an additional $2.85 billion of taxpayers' money at the problems government has exacerbated in the first place, simply does not make any sense. Proposition 1C, like the numerous affordable housing bonds and programs before it, would do little to address the problem of low-income homeownership, and would likely make things worse. Sometimes the best solution is for government to just get out of the way.

Appendix: History of Affordable Housing Spending in California

The federal government has historically provided the majority of support for affordable housing programs, but declining federal assistance over the last several decades has prompted calls in California for increased state funding for affordable housing. California voters approved three bond measures—Proposition 77, 84 and 107—in 1988 and 1990 authorizing the issuance of $600 million in general obligation bonds to fund state affordable housing programs. By the late 1990's, these bond funds had all been committed, and ongoing general fund support for housing programs was minimal. According to the California Budget Project, spending on state housing programs dropped substantially during the 1990s, from 0.5 percent of general fund spending in 1989-90, to less than 0.2 percent each fiscal year during the latter half of the 1990's.[7]

A state budget surplus facilitated the inclusion of over $500 million in appropriations for housing programs in the 2000-2001 Budget Act. This infusion represented the largest one-time general fund allocation for housing programs in state history, but less than half of these funds actually materialized due to the subsequent state budget crisis.[8] In 2002, voters approved the largest housing bond in history—Proposition 46—authorizing the sale of $2.1 billion in general obligation bonds to fund over twenty different housing programs. With the bulk of Proposition 46 funds already spent, voters will now return to the polls in November 2006 to decide the outcome of Proposition 1C.

A. Proposition 77 (1988)

In 1988, California voters passed Proposition 77—the California Earthquake Safety And Housing Rehabilitation Bond Act of 1988—which authorized the sale of $150 million in general obligation bonds to rehabilitate substandard low-income housing. Under Proposition 77, $80 million was allocated for loans to owners of substandard multi-family units to improve their ability to withstand earthquakes. The remaining $70 million was allocated to two existing housing rehabilitation programs: the first provided loans to rehabilitate lower-income single family and multi-family units; the second program provided loans to rehabilitate housing for the elderly or the mentally or physically disabled.[9] Both offered property owners 3 percent, simple interest loans.

B. Proposition 84 (1988)

Proposition 84—the Housing and Homeless Bond Act of 1988— was approved by voters in November 1988. Proposition 84 authorized the sale of $300 million in general obligation bonds for several housing programs, including $200 million for financing new construction of rental units under the Rental Housing Construction Program (RHCP). Proposition 84 also provided $25 million for the rehabilitation of single-room occupancy hotels and funding for several additional housing programs, including Family Housing Demonstration, Home Purchase Assistance, Emergency Shelter, and Migrant Farmworker Housing.[10]

C. Proposition 107 (1990)

Two years after passing Propositions 77 and 84, California voters passed Proposition 107—the Housing and Homeless Bond Act of 1990—which authorized the sale of $150 million in general obligation bonds to provide housing for the low-income and homeless populations. The measure allocated $100 million for new, affordable rental housing under the RHCP, $25 million for home purchase assistance for first time buyers, $15 million in loans to acquire and rehabilitate residential hotels serving low-income persons, and $10 million for grants for the development and rehabilitation of temporary emergency homeless shelters under the Emergency Housing Assistance Program (EHAP).[11]

D. 2000-2001 Budget Act

By 2000, all of the funds generated from Proposition 77, 84, and 107 bond sales had been spent. In 2000, the state's large budget surplus resulted in a one-time general fund appropriation of approximately $500 million for housing programs in the 2000-2001 state budget. The programs funded included:

- Multifamily Housing Program: $188 million in loans for the development and/or rehabilitation of rental housing, and preservation of existing affordable rental housing at risk of converting to market-rate.
- Jobs-Housing Balance Improvement Program: $110 million, largely used to reward local governments that issue more housing permits by providing grants for capital amenities to mitigate the impact of new housing. Priority was given to encouraging infill and high density development in areas with increasing employment.
- Homeownership programs: $50 million for the CalHome program (loans and grants to local governments for a variety of homeowner assistance programs). An additional $50 million was allocated to the Homebuyers Downpayment Assistance Program for low- and moderate-income first-time homebuyers. Also, eligibility was expanded for California Housing Finance

Agency's $40 million school facility fee reimbursement program that provides homeownership assistance.

- Downtown Rebound Program: $25 million to a new program that funds local planning activities and projects to convert old industrial and commercial buildings to residential uses, as well as to promote infill projects.
- Emergency Housing Assistance Program: $39 million in grants to counties and nonprofits to finance emergency shelters; of this total, $25 million was allocated for grants to construct or expand shelters.
- Community Development Block Grant Program: $61.9 million for housing rehabilitation, housing-related infrastructure and site acquisition.
- Home Investment Partnerships Program (HOME) Grant Program: $45 million for the construction and rehabilitation of rental units and tenant-based rental assistance.
- Federal emergency shelter grant programs: $6.3 million for facility conversion, rehabilitation, maintenance and operating costs for housing services.
- Farmworker Housing Grant Program: $46.5 million to finance the construction or rehabilitation of rental and owned housing for farmworker households.

Although the 2000-2001 budget contained the largest non-bond allocation for affordable housing in California's history, officials ultimately reported that less than half of that amount was ultimately allocated in light of the state's subsequent budget crisis.[12]

E. Proposition 46 (2002)

In November 2002, California voters approved the largest housing bond in history, Proposition 46 ("The Housing and Emergency Shelter Trust Fund Act of 2002"). Passage of the measure authorized the state to sell $2.1 billion in general obligation bonds to fund over twenty different housing programs. The allocation of Proposition 46 funding is listed in Table 3.

According to the state Legislative Analyst's Office (LAO), Proposition 46 will cost the state approximately $4.7 billion over 30 years to pay off both the principal ($2.1 billion) and interest ($2.6 billion) costs on the bonds, equivalent to general fund disbursements of $157 million per year. To date, most of the Proposition 46 funds have been spent; LAO estimates that approximately $350 million of the Proposition 46 funds will be unspent as of November 1, 2006.

Table 3: Proposition 46 Program Allocation		
HCD Programs		
Multi-family Housing Program (MHP)		
General Multi-family Housing Program	Low-interest loans to assist the new construction, rehabilitation and preservation of rental housing for lower income households.	$800,000,000
Supportive Housing	Low-interest loans for supportive rental housing projects with health and social services for low-income renters.	$195,000,000
Supportive Services Space	Low-interest loans to build facilities for health and social services connected with rental housing projects funded by MHP.	$20,000,000
Student Rental Housing	Low-interest loans for rental housing near universities that reserves units for low-income students.	$15,000,000
CalHome		
General Funding	Low-interest loans and grants to local public agencies and nonprofits to fund local homeownership programs and housing developments.	$115,000,000
BEGIN	Grants to local governments to assist homebuyers in new single-family housing developments that benefit from cost-saving streamlining of local development standards.	$75,000,000
CalHome Self-Help Housing Technical Assistance Allocation	Grants to organizations to assist low and moderate income households who build their own homes.	$10,000,000
Joe Serna Jr. Farmworker Housing Grant Program		
General	Low-interest loans and grants for construction of housing for farmworkers.	$155,000,000
Migrant Farmworker Housing	Low-interest loans and grants for projects which serve migratory workers.	$25,000,000
Health-Housing Set-Aside	Low-interest loans and grants for farmworker housing which also provides health services.	$20,000,000
Emergency Housing & Asst Program (EHAP)	Grants to local governments and nonprofits to develop homeless shelter facilities.	$195,000,000
Job Housing Balance Program / Workforce Housing Reward Program	Grants to cities and counties that increase their issuance of residential building permits.	$100,000,000
Local Housing Trust Fund	Matching grants to local governments and nonprofits to capitalize housing trust funds to support local housing programs.	$25,000,000
Code Enforcement Grant Program	Grants for capital expenditures for local code enforcement departments.	$5,000,000
Exterior Accessibility Grants for Renters	For exterior modifications for low-income tenants with disabilities to make rental housing ADA accessible.	$5,000,000
Preservation Interim Repositioning Program	Low-interest loans to maintain affordability of existing subsidized units where subsidy agreements are expiring.	$5,000,000

Table 3: Proposition 46 Program Allocation		
		CalHFA Programs
California Homebuyer's Downpayment Assistance Program (CHDAP)	Deferred 3% downpayment assistance loans for first-time moderate income homebuyers.	$117,500,000
California Housing Loan Insurance Fund	Mortgage Insurance for home mortgages.	$85,000,000
School Facility Fee Downpayment Assistance Program	Downpayment assistance grants for homebuyers of newly constructed homes.	$50,000,000
Preservation Acquisition Program	Financing to preserve "at risk" government assisted rental developments for low to very low income occupants.	$45,000,000
Extra Credit Teacher Program	Provides downpayment assistance the greater of 3% of the sales price or $7,500 (3% or $15,000 in high cost counties) to eligible teachers, administratiors, credentialed staff and certified employees.	$25,000,000
Homeownership In Revitalization Areas Program (HIRAP)	Deferred downpayment assistance targeted to first-time low income homebuyers purchasing in revitalization areas.	$12,500,000
TOTAL		**$2,100,000,000**

Source: Department of Housing and Community Development, Financial Assistance Division, Loan and Grant Program Directory, February 2006, http://www.hcd.ca.gov/fa/L_and_G_2005_web_new_date.pdf

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