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# Implementation of the Housing Bond

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LEGISLATIVE ANALYST'S OFFICE

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Assembly Housing and Community Development

Hon. Lori Saldaña, Chair





## Implementation of The Housing Bond

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*In November 2006, voters approved Proposition 1C, which allows the state to sell \$2.85 billion in general obligation bonds to fund existing housing programs as well as new programs that encourage housing developments. These bonds provide a major one-time infusion of state funds to be spent over several years. In this piece, we highlight key programs funded by Proposition 1C and identify issues and offer recommendations that the Legislature should consider to ensure the effective and efficient implementation of the bond measure.*

### Background

The state supports a variety of housing programs that target low- and moderate-income and homeless populations. Some of the programs, such as California Homebuyer's Downpayment Assistance (CHDAP), provide financial assistance so that low- and moderate-income families can purchase a home. Other programs, such as Multifamily and Supportive Housing, provide assistance for the construction, rehabilitation, and preservation of permanent and transitional rental housing for low-income and disabled individuals and households. These programs are generally supported by general obligation (GO) bonds and federal funds, and they are administered by the Department of Housing and Community Development (HCD) and the California Housing Finance Agency (CalHFA).

Between 1990 and October 2006, there were two bond measures passed by the voters for state housing programs:

- ***Proposition 107 (1990): \$150 Million.*** The Housing and Homeless Bond Act authorized \$150 million in GO bonds to supply housing for low-income and homeless Californians. The amount includes \$100 million for new, affordable rental housing, \$25 million for home purchase assistance for first-time homebuyers, \$15 million in loans to acquire and rehabilitate residential hotels serving low-income populations, and \$10 million for grants for the development and rehabilitation of emergency homeless shelters.
- ***Proposition 46 (2002): \$2.1 Billion.*** The Housing and Emergency Shelter Trust Fund Act authorized \$2.1 billion in GO bonds for 21 housing programs. At the time, it was the largest housing bond ever approved by California voters.



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According to HCD and CalHFA, all of the Proposition 107 funds have been committed to fund selected housing projects. The departments estimate that, as of the end of 2006, about \$344 million in Proposition 46 funds have not been awarded.

### Major Provisions of Proposition 1C

In November 2006, voters approved Proposition 1C, authorizing the use of \$2.85 billion in GO bond funds for various housing purposes.

**Fund Allocation.** Specifically, Proposition 1C allocates \$2.85 billion to 13 housing and development programs, as shown in Figure 1 (see next page). A little more than one-half of the funds (about \$1.5 billion) is subject to legislative appropriation. This includes funds designated for three new development programs and funding for the current Building Equity and Growth in Neighborhood program (BEGIN). All other programs in Proposition 1C are continuously appropriated. The major allocations of the bond proceeds from Proposition 1C are:

- **Development Programs (\$1.35 Billion).** Almost one-half (47 percent) of the bond money, when appropriated by the Legislature, will fund three new programs to promote urban development and parks. The programs are Regional Planning and Housing and Infill Incentive, Transit-Orientated Development, and Housing Urban-Suburban-and-Rural Parks. These programs will provide loans and grants for a wide variety of projects, including water, sewage, transportation, traffic mitigation, brownfield cleanup, parks, and housing around and near public transit.
- **Homeownership Programs (\$625 Million).** About one-fifth (22 percent) of the bond funds will be available for four programs—CalHome, CHDAP, BEGIN, and Self-Help Construction Management—that assist and encourage homeownership for low- and moderate-income homebuyers. In general, these programs aim to lower the cost—whether in the form of downpayment assistance or ongoing mortgage interest payment—of housing. Typically, eligibility for these assistance programs is based on



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<b>Figure 1</b>		
<b>Proposition 1C—Use of Bond Funds</b>		
<i>(In Millions)</i>		
<b>Development Programs</b>		<b>\$1,350</b>
Regional Planning, Housing and Infill Incentive	Grants for projects—including parks, water, sewer, transportation, and environmental cleanup—to facilitate urban "infill" development.	\$850
Transit-Orientated Development	Grants and loans to encourage more dense development near transit.	300
Housing Urban-Suburban-and-Rural Parks	Grants for parks throughout the state.	200
<b>Homeownership Programs</b>		<b>\$625</b>
CalHome	Homeownership programs for low-income households, such as loans for site development.	\$290
Homebuyer's Downpayment Assistance	Deferred low-interest loans for up to 6 percent of home purchase price for first-time low- or moderate-income homebuyers.	200
Building Equity and Growth in Neighborhoods	Grants to local governments for homebuyer assistance.	125
Self-Help Construction Management	Grants to organizations which assist low- or moderate-income households in building or renovating their own homes.	10
<b>Multifamily Housing Programs</b>		<b>\$590</b>
Multifamily Housing	Low-interest loans for housing developments for low-income renters.	\$345
Supportive Housing	Low-interest loans for housing projects which also provide health and social services to low-income renters.	195
Homeless Youth	Low-interest loans for projects that provide housing for young homeless people.	50
<b>Other Housing Programs</b>		<b>\$285</b>
Farmworker Housing	Low-interest loans and grants to develop housing for farm workers.	\$135
Affordable Housing Innovation	Grants and loans for pilot projects that create or preserve affordable housing.	100
Emergency Housing Assistance	Grants to develop homeless shelters.	50
<b>Total</b>		<b>\$2,850</b>



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the household's income, the cost of the home the applicant(s) want to buy, and whether or not it is the household's first home purchase.

- ***Multifamily Housing Programs (\$590 Million)***. Another one-fifth (21 percent) of the bond funds will be available for programs that focus on the construction or renovation of multifamily rental housing projects, like apartment buildings, for the low-income population as well as homeless youth and the disabled. Specifically, the programs will provide local governments, nonprofit organizations, and private developers with low-interest (3 percent) loans to fund part of the construction cost. In exchange, a project must reserve a portion of its units for low-income households for 55 years. Projects in areas where there is a need for infill development and are near existing public services will receive funding priority.
- ***Other Housing Programs (\$285 Million)***. These programs, such as Farmworker Housing and Homeless Shelters, provide loans and grants for the development of homeless shelters and housing for farm workers. Proposition 1C will also fund pilot projects aimed at reducing the costs of affordable housing through the Affordable Housing Innovation program.

While HCD will administer most of the programs, CalHFA will also be involved. Specifically, CalHFA will manage CHDAP and the Residential Development Loan Program, which is funded by CHDAP.

***Proposition 1C Funds Both Existing and New Programs.*** In total, Proposition 1C will provide \$1.35 billion to continue funding eight existing programs for which Proposition 46 has also provided funding. Figure 2 (see next page) shows the amount of bond funds allotted by Proposition 1C for these programs compared to the amount provided by Proposition 46. The remaining Proposition 1C funds (\$1.5 billion) will be for five new programs created by the measure: Regional Planning and Housing and Infill Incentive, Transit Orientated Development, Housing Urban-Suburban-and-Rural Parks, Affordable Housing Innovation, and Homeless Youth programs.



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<b>Figure 2</b>		
<b>Funding of Continuing Housing Programs</b>		
<i>(In Millions)</i>		
<b>Program</b>	<b>Proposition 46</b>	<b>Proposition 1C</b>
Multifamily Housing	\$800	\$345
CalHome	115	290
Homebuyer's Downpayment Assistance	118	200
Supportive Housing	195	195
Farmworker Housing	155	135
Building Equity and Growth in Neighborhoods	75	125
Emergency Housing Assistance	195	50
Self-Help Housing (Construction Management)	10	10
<b>Totals</b>	<b>\$1,663</b>	<b>\$1,350</b>

### Governor's Proposal

The Governor's budget proposes total expenditures of \$820 million from Proposition 1C funds in the current and budget years combined. Figure 3 (see next page) summarizes the expenditures by programs. Specifically:

- Development Programs: \$228 million.
- Homeownership Programs: \$164 million.
- Multifamily Housing Programs: \$341 million.
- Other Housing Programs: \$87 million.

Of the total amount, \$160 million will be expended in the current year for five programs, including four existing programs (CalHome, Multifamily Housing, Supportive Housing, and Farmworker Housing) and one new program (Homeless Youth) that Proposition 1C created. The remaining \$660 million will be expended in 2007-08 to provide funding for all 13 programs under the bond measure.



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<b>Figure 3</b>		
<b>Governor's Proposed Expenditures</b>		
<i>(In Millions)</i>		
<b>Programs</b>	<b>2006-07</b>	<b>2007-08</b>
<b>Development</b>		
Regional Planning, Housing, and Infill Incentive	—	\$101
Transit-Orientated Development	—	96
Housing Urban-Suburban-and-Rural Parks	—	31
<b>Homeownership</b>		
CalHome	\$35	\$56
Homebuyer's Downpayment Assistance	—	30
Building Equity and Growth in Neighborhoods	—	40
Self-Help Construction Management	—	3
<b>Multifamily Housing</b>		
Multifamily Housing	\$70	\$141
Supportive Housing	20	80
Homeless Youth	15	15
<b>Other Housing</b>		
Farmworker Housing	\$20	\$41
Affordable Housing Innovation/Pilot Programs	—	16
Emergency Housing Assistance	—	10
<b>Totals</b>	<b>\$160</b>	<b>\$660</b>

### Issues for Legislative Consideration

In implementing Proposition 1C, there are several issues that warrant further consideration by the Legislature to ensure that the bond program is carried out in a timely and cost-efficient manner that achieves the goals of the program.

*New Programs Need Further Legislative Definition of Project Selection Criteria.* As noted earlier, Proposition 1C establishes five new funding programs. For three of these programs, the measure does not provide any specific directions regarding funding eligibility and criteria to be used to evaluate project funding applications. The three programs are: Regional Planning and Housing and Infill Incentive, Housing Urban-Suburban-and-Rural Parks, and Affordable Housing Innovation. Rather,



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Proposition 1C only provides broad project categories that may be funded under these programs.

Regarding the use of the Affordable Housing Innovation Fund (\$100 million), Proposition 1C specifically requires that eligibility criteria be first enacted in statute and approved by a two-thirds vote of the Legislature, before funds can be allocated for pilot programs that demonstrate “innovative, cost-saving approaches” to create or preserve affordable housing. However, for the other two programs—\$850 million for regional planning, housing, and infill incentives and \$200 million for parks—Proposition 1C does not explicitly call for further statutory direction, other than making the funds available for a broad range of projects. Such projects include water, sewer, transportation improvements, traffic mitigation, brownfield cleanup, as well as parks that encourage infill and housing developments. As a result, it would be up to the implementing department to determine how the funds should be used as “incentives” to leverage other housing investments, or whether a certain category of eligible projects should have higher priority over others. The measure also leaves it open as to whether these funds should be provided on a competitive or first come, first serve basis.

Absent further legislative direction, the administration will have broad discretion to allocate funds to projects, potentially in ways not consistent with legislative priorities. Accordingly, we recommend the enactment of legislation to provide further direction to the allocation of these funds, including project eligibility, funding priorities, as well as criteria to be used to select projects. Specifically, we recommend that this funding be made available on a competitive basis. Projects should be evaluated using objective criteria which include the housing impact of the proposed projects, as well as the amount of other funds that would be leveraged with the bond money.

*Designate Lead Department for New Program.* The HCD and CalHFA will administer most of the Proposition 1C funded programs. Proposition 1C, however, does not designate an agency to administer the \$850 million for infill incentives and \$200 million for park development. As the Legislature further defines these two programs (as discussed





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above), it should consider which state entity is best suited to administer these funds and equipped to evaluate grant applications. For instance, Proposition 84 (the park and water bond also approved in November 2006) includes \$400 million for local and regional parks. These funds will be administered by the Department of Parks and Recreation (DPR) which, for many years, has had an established process to implement bond-funded grants and loan programs for park development. We believe that designating DPR as the primary administrator of all bond funding for parks (including Propositions 1C and 84) would likely result in lower overall state administrative costs, more consistent project evaluation and better coordinated project selection, than if two agencies (DPR and HCD) administer separate grant programs for park development.

*Coordination With Other Departments Essential.* The HCD should coordinate with various transportation agencies in implementing the transit-oriented development program. Proposition 1C designates HCD as the administrating agency for the \$300 million in transit-oriented development funding, although the department has only limited experience in dealing with transit-orientated housing development projects. At the same time, Proposition 1B (the transportation bond measure that voters approved in November 2006) provides \$3.6 billion for transit improvements including the purchase of vehicles to expand services and construction of rail and facilities such as transit stations. Coordination between HCD and various transportation agencies on such matters as project evaluation criteria and timelines for projects would improve the effectiveness of both programs. We recommend that HCD advise the Legislature during budget hearings on the ways in which it intends to coordinate with the various transportation agencies.

*Timing of Funding Availability.* While Proposition 1C provides a significant amount of funding for housing on a one-time basis, there are, as we discuss below, good reasons for not expending all the funds at one time, but rather over several years.

The HCD indicates that, as in past practice, it plans to make the bond funds for certain programs, such as CalHome and Farmworker Housing, available for project funding over several years. This would allow



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several granting cycles to be established. While this reduces the amount of funding immediately available, it would improve the overall quality of the applicant projects competing for funds, thereby improving the quality of projects eventually funded. This is because if too large an amount of funding were awarded at any one time, it is possible that low-scoring projects would be funded. By making the funds available over multiple cycles, there is more time for project sponsors and applicants to develop project applications.

We think the department's approach is reasonable. We recommend that for each of these programs, the department advise the Legislature during budget hearings on the number of cycles it intends to establish, the schedule for the cycles, and the approximate amount of funding that it plans to make available for each cycle. The information would enable the Legislature to better monitor the program's progress. It would also allow grant applicants to plan when they will compete for funds.

*Require Periodic Reporting for Legislative Oversight.* In addition to providing further direction on funding eligibility and project selection criteria, as discussed earlier, the Legislature should exercise ongoing oversight of the bond program to make sure that funds are expended in an effective and timely manner to achieve program objectives. To facilitate ongoing oversight, we recommend that the Legislature require that certain information be provided to it annually.

Current law requires HCD to annually report specific information for various Proposition 46 housing programs, including the following:

- Number of housing units assisted by the programs.
- Number of individuals and households served and their income levels.
- The distribution of units among various areas of the state.
- The amount of other public and private funds leveraged by the assistance provided by the programs.
- Information detailing the assistance provided to various population groups by program.



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We think that the information required by current law for Proposition 46 provides measures of the effectiveness of the housing programs, and should be required for Proposition 1C housing programs as well. Proposition 1C requires only that HCD report generally on how specific housing funds are expended. The HCD indicates that given the current law requirement, it together with CalHFA, will provide for each of the housing programs funded under Proposition 1C similar information as is currently reported for Proposition 46 programs.

As indicated earlier, Proposition 1C contains funds for programs that do not directly provide housing but rather fund improvements that encourage housing development. These programs are the infill incentive, transit-oriented development, and parks programs. However, Proposition 1C does not include any reporting requirements for these programs. Because these new programs do not fund housing per se, we think it is even more important that the effectiveness of these programs in terms of housing development be monitored and assessed. Accordingly, we recommend that the Legislature enact legislation that requires the administering entity of these programs to provide information annually on the projects funded, the amount of funding provided to each project, the fund recipient, and the amount of housing to be developed as a result of the projects. The information should be collected by HCD and presented in a consolidated annual report to facilitate oversight of the entire bond program.

***Hold Joint Legislative Hearings.*** Beyond requiring specific information through annual reporting, we further recommend that the policy committees and budget subcommittees of the Legislature hold periodic, joint hearings on the implementation of the bond measure. The hearings would provide the Legislature an opportunity to monitor the progress of the bond program in the aggregate and assess whether the program is achieving the goals of providing housing in an effective and timely manner.

### **Conclusion**

The passage of Proposition 1C provides the state with funding to address affordable housing issues for many Californians, including low- and moderate-income individuals and disabled and homeless populations.



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However, it is important that the bond funds are used to achieve the bond program's objective in promoting housing in an efficient and cost-effective manner. In this piece, we have recommended actions that will help the state meet these goals.

