MILKEN INSTITUTE

ACCELERATING WORKFORCE HOUSING DEVELOPMENT ACROSS CALIFORNIA

FINANCIAL INNOVATIONS LAB® REPORT

ACCELERATING WORKFORCE HOUSING DEVELOPMENT ACROSS CALIFORNIA

FINANCIAL INNOVATIONS LAB® REPORT

CONTENTS

ACCELERATING WORKFORCE HOUSING DEVELOPMENT ACROSS CALIFORNIA

Financial Innovations Lab® Report

INTRODUCTION

California has long had a shortage of affordable housing, most notably along the coast, around universities and research centers, and where booming local economies reflect the entrepreneurial culture for which the state is famous. However, a plentiful housing supply that is affordable to various income levels is a building block for any community.

Success is a great attractor. As firms cluster and scale up, they require more employees and the collateral businesses and services to accommodate them. Many Californians face a daunting challenge, along with a myriad of financial barriers, when trying to access housing at a range of income levels. Rising rents, coupled with a shortage of supply and furthered by cases of restrictive policies, are not only forcing residents into burdensome commutes and the decision to relocate to more affordable areas but also straining overall economic mobility and productivity.[1]

Worsening over decades, the housing shortage has amplified into a full-blown crisis. The numbers are staggering. According to a 2018 report from the California Department of Housing and Community Development (HCD), the state's central housing agency, projections for 2015–2025 population growth show that by the end of the period, California will need 1.8 million more housing units. On average, only 80,000 units have been going up per year, an alarming gap in construction for a population that is expected to grow from 39 million to 50 million in the next 30 years.[2]

Workforce housing, the subject of this project, is on the critically endangered list, mostly due to high property costs and regulatory hurdles for new construction but also due to natural disasters, including the state's worsening fire seasons. Workforce housing refers to the population of critical workers (such as firefighters, teachers, and bus drivers) with earned income that is insufficient to secure quality housing within reasonable proximity to their workplace, yet too high to qualify for traditional subsidized housing programs. Salaries for this segment have rarely kept pace with the cost of living and certainly not with the rising price of real estate. In the entire Bay Area, for example, only 5 percent of the neighborhoods are now said to be affordable for a household making $62,000 a year.

WHAT IS AFFORDABLE HOUSING?

The US Department of Housing and Urban Development (HUD), the agency responsible for addressing the country's housing needs, defines affordable housing for all income levels as "housing for which the occupant is paying no more than 30 percent of their income for gross housing costs, including utilities."[4] Given the existing housing supply and increasing population demand, especially near urban job centers, this is often unattainable for many residents.

THE HOUSING MARKET (BOTH RENTAL AND OWNERSHIP) CAN BE BROKEN DOWN BROADLY INTO THREE SEGMENTS.

- **Affordable Housing:** The formalized, "capital A" Affordable Housing market refers to housing provided by government subsidies to lower-income residents, generally those earning less than 80 percent of area median income. This Affordable Housing market functions within very clear rules and financing mechanisms.[5]

- **Workforce Housing:** Housing for those with moderate incomes, such as teachers, health-care workers, and safety officers, which should be affordable without formal subsidies and is located within reasonable proximity to places of work.[6] California defines workforce housing as accessible to residents earning 80 to 120 percent AMI.[7] Workforce housing is also referred to as "lower-case a" affordable housing.

- **Market-Rate Housing:** Housing with no rent restrictions. Property owners set rent prices based on location, features, and amenities.

Generally, income for the workforce population tends to fall below the Area Median Income, or AMI, the metric of a region's income distribution, but not so far below that they qualify for housing assistance. People who receive housing assistance are generally low-wage earners who earn less than 80 percent of AMI. The workforce segment, on the other hand, tends to make 80 to 120 percent[8] of AMI, still low enough that most good-quality housing options remain out of reach, especially in the job-rich communities that employ them. They must often choose between careers or lengthy commutes to the only pockets of affordable development.

In February 2019, the Milken Institute, in collaboration with JPMorgan Chase & Co., held a Financial Innovations Lab in Oakland to address California's workforce housing shortage and explore possible solutions for real estate and housing developers and policymakers. The Lab brought together local and federal policymakers, community stakeholders, and finance professionals to discuss financing and policy options. It's easy to blame California's housing crisis solely on the lack of supply, but exploring the reasons behind that shortage, including the financial and policy barriers, is critical to identifying solutions to this growing challenge.

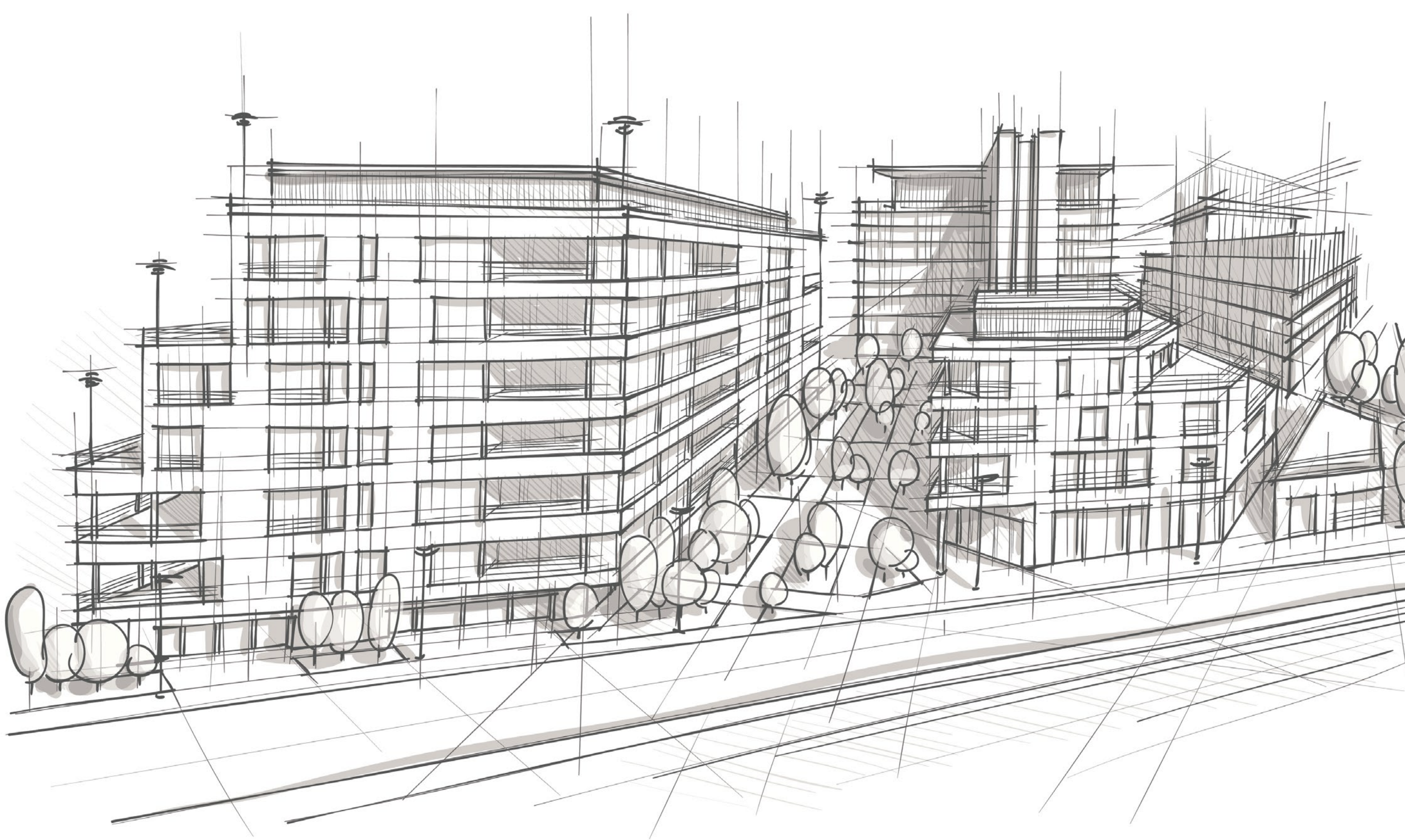
ISSUES AND PERSPECTIVES

CALIFORNIA'S HOUSING NEEDS

"The cost of living, especially housing, is what stops the whole world from moving to California," said demographer Dowell Myers in a *Los Angeles Times* article in late 2018. Myers was addressing newly released US Census surveys showing that for 2017 the number of people leaving the state were slightly higher than the numbers moving in. The University of Southern California professor also noted that young people who move to California tend to leave around the time they start to settle down. "[T]hey face severe housing prices here, so the families are being lost," he said. "We are not growing a complete society."[9]

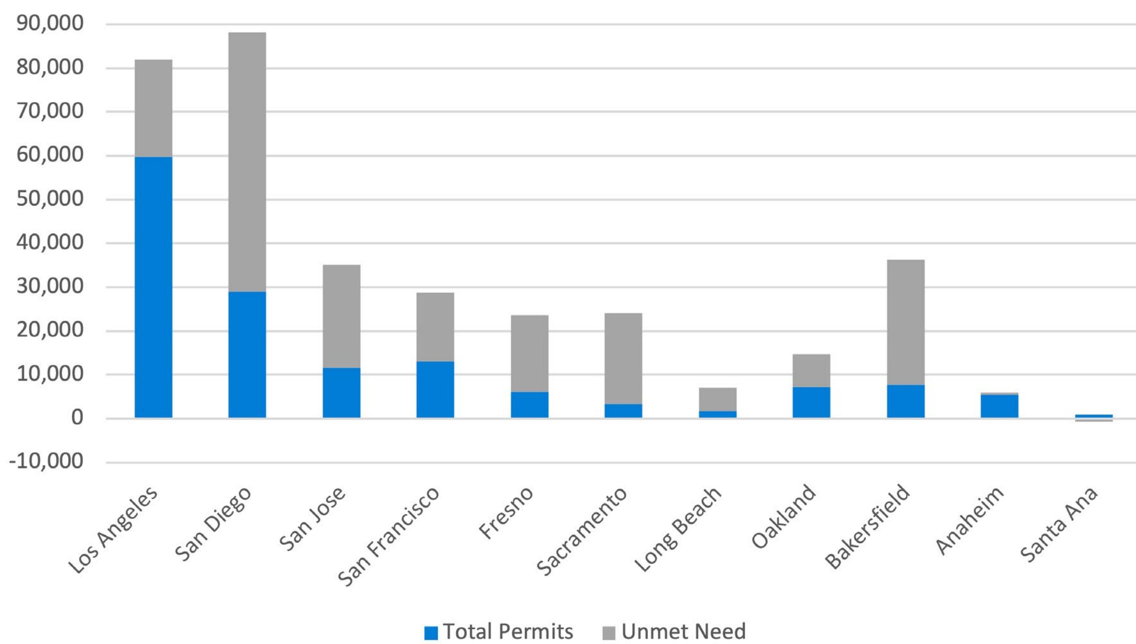
California experienced a net loss of 1 million residents for the period 2007-2017 (as measured by people filing state tax returns), which was about half the total for the prior period 1990-2006. While general outmigration has slowed, new residents moving to the state are higher earners ($100,000 and above) and hold more graduate degrees.[10] While the incoming numbers give credence to the state's enduring popularity, they also suggest a hard truth about people who fall outside that profile. In fact, in early 2019, the New York-based market research firm Edelman Intelligence published results of surveys of California residents. Respondents regarded high housing costs as the number one threat to the state's economy. Also, 53 percent of survey respondents (up four points from the prior year) and 63 percent of millennials polled said that the high cost of living was making them consider moving out.[11]

The post-recession recovery has not lifted all boats across the state's economic landscape. Although Los Angeles and the Bay Area have seen growth in high-wage jobs, middle-wage service-sector jobs make up significant portions of the labor force in both. These are the middle-income workers forced into bleak trade-offs between where they work and where they live. It is disheartening to note that, according to US Census and Bureau of Labor Statistics measures (that take into account regional variations in housing prices and cost-of-living expenses and expand the definition of the family unit), California has the unwelcome distinction of having the nation's highest poverty rate.[12]



How did this happen? Since 1969, state law has mandated that every California municipality and county plan for its growing housing and infrastructure needs. Every five to eight years, based on existing demand and predicted population growth, they must perform assessments to anticipate housing needs, down to granular counts of how many units they will likely require and at what income levels.[13] These assessments, called the Regional Housing Needs Assessment, or RHNA, go to regional councils of government that work with HCD, which then approves the final allocations for new housing across the income spectrum. It is up to the towns, cities, and counties to determine the precise locations for their housing allocations, but they are mandated to submit annual progress reports as they work toward meeting their housing goals. California's 11 largest cities have fallen short of meeting their allocations for the current assessment period, as shown in Figure 1.

Figure 1: Regional Housing Needs Allocation (RHNA) Figures Versus Permitted Units*

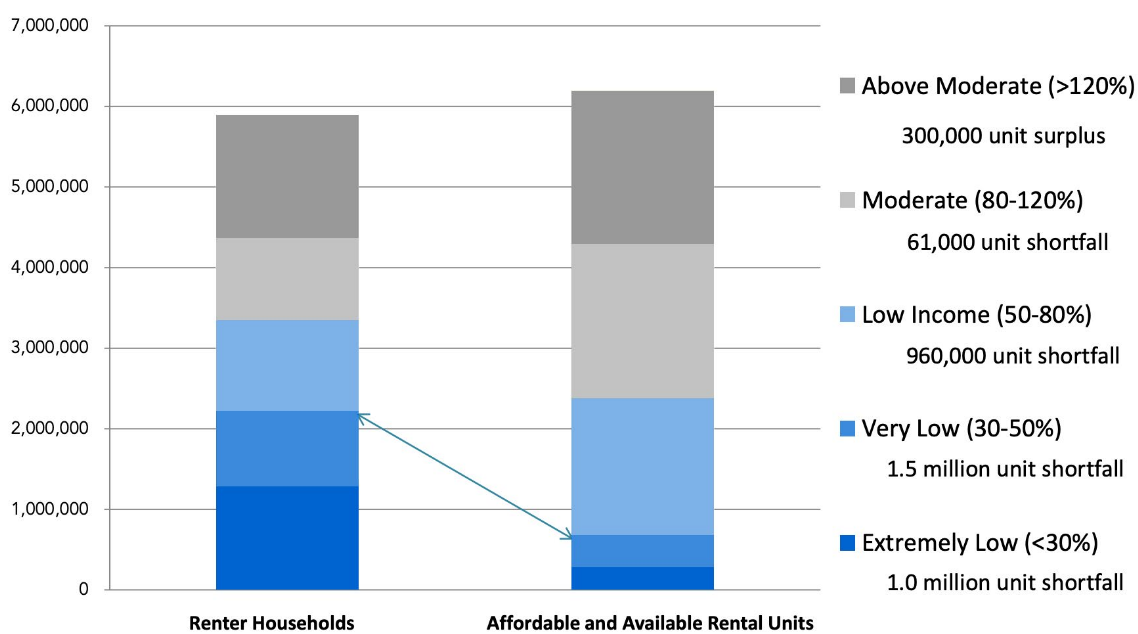


**Numbers represent the current RHNA eight-year cycles for each city.*
Source: California Department of Housing and Community Development.

Statewide in 2017, only 19 percent of moderate-income and 9.8 percent of low-income rental units mandated by the current eight-year RHNA allocations had even been permitted.[14] On September 29, 2017, when Governor Jerry Brown signed into law a legislative "housing package" containing 15 bills designed to help provide new and/or improved regulatory and financial policies and programs to boost the state's housing supply and preserve existing stock of affordable housing, it was broadly welcomed. The package went into effect in January 2018 and included, among other items, increased support for private investment in affordable housing.

Still, during all of 2018, California gained 186,807 new residents and achieved a net gain of just 77,000 new housing units (the "net" accounts for 23,700 units lost in 2018, most of them to wildfires).[15] This is a considerable lag behind the pace needed to bring in 1.8 million new units by 2025. Consider that if the same pace continues over the next six years, we will still see only 462,000 units, or just 25 percent of the need. To help bridge the gap, a large portion of the state's 2017 housing legislative package is dedicated to holding cities accountable by enforcing minimum housing requirements. Cities and counties that fail to provide accurate and timely housing data will now face penalties. According to HCD, upwards of 70 percent of localities are now reporting their data, of which the quality has noticeably improved.[16]

Figure 2: Rental Housing Falls Short at All Income Levels, Except 'Above Moderate'



Source: Adapted from the 2016 National Low Income Housing Coalition tabulations of 2014 American Community Survey Public Use Microdata Sample (PUMS) housing file. Graphic by HCD.

As shown in Figure 2, for 2016, there was a shortage of 61,000 units for moderate-income renters and a 960,000-unit shortage for low-income renters. These statistics do not reflect the 41.5 percent of moderate-income renters or the 64.6 percent of low-income renters who are considered "cost-burdened," meaning they pay more than 30 percent of their pretax income on housing costs and tend to forgo necessities such as health care.[17] Put another way, in 2022, three years from this publication date, when the minimum wage is set to rise to $15 an hour, a worker at that salary will be able to afford $780 in monthly rent and related housing costs. A worker paying more would be considered cost-burdened. Today, not a single county reports a median rent below $1,090, and the median rent in the San Francisco area can reach as high as $4,300.[18]

Because land prices are some of the highest costs associated with new construction, prioritizing higher-density multifamily rental projects and broadening the types of structures to be considered, while preserving existing housing stock, is a critical component of increasing the housing stock. Much of the housing in California (65 percent) consists of single-family homes built before 1980, with just 31 percent of the market composed of multifamily properties. Of note, however, homeownership rates have dropped since the early 2000s, with rentals of those single-family homes ticking upward.[19]

Alternative structures are gaining some appeal, including accessory dwelling units (ADUs), also known as granny flats, mother-in-law flats, and backyard cottages. As "in-fill" structures, they are added on to existing properties, either in backyards or as refurbished garages or added rooms. Often easier, faster, and less expensive to build than new construction, they have found policy support in a handful of cities as a means to address the housing crisis.[20] Another option is prefabricated modular housing, which today can be Leadership in Energy and Environmental Design (LEED) certified, well equipped, architecturally stylish, and inserted seamlessly into developed urban environments. These also offer an attractive opportunity to lower construction costs. In addition to vetting alternative building types to increase the availability of units, California must implement incentives at both the local and state levels to provide supportive financial tools to improve and sustain production and explore what role the private market can play to increase housing development.

STATE OF THE MARKET: HOUSING INVESTMENT ACROSS CALIFORNIA

For the most part, funding sources that offer direct subsidies for moderate-income rental housing do not exist. However, funding options exist that could be applied to mixed-use and mixed-income projects comprising some workforce housing.

The federal Departments of the Treasury and Housing and Urban Development (HUD) oversee programs to help low-income Americans with housing. HUD's Low Income Housing Tax Credit (LIHTC) program, dating from 1986, issues tax credits to developers, who resell the credits to institutional investors for the equity to rehabilitate or build new housing. HUD is also responsible for the housing choice voucher program (Section 8) which, among others, provides vital support in the form of a rent subsidy for eligible participants.[21]

HUD's funding has dropped significantly, and states and local jurisdictions will have to be innovative if they hope to continue meeting established assistance levels. At the state level, California's HCD administers funding programs to assist low-income renters and homeowners. It advocates for and monitors building standards, conducts analyses, and takes the lead on the Regional Housing Needs Assessment.[22] In addition, the California Housing Finance Agency, "the state's affordable housing lender," offers financing and guidance to first-time homebuyers and developers of affordable multifamily housing, housing for people with special needs, and mixed-income housing. The agency works with local organizations and lending institutions.[23]

City and county governments play significant roles in deciding local development and land-use (zoning) changes. Also important are local transit agencies (e.g., the Los Angeles County Metropolitan Transportation Authority or Bay Area Rapid Transit), which influence and offer incentives, often using regional credit for challenges such as lowering greenhouse gas emissions for housing development around transit hubs.

As previously noted, the 2017 "housing package" signed by Governor Brown bundled 15 pieces of legislation (new or amendments) that address both regulatory and financial hurdles and effectively open the door for innovation in housing delivery.[24] However, almost all of the state's current policies address low-income housing, leaving significant gaps in funding options for workforce housing. On the front end of the development process, a handful of the new laws aim to ease planning and zoning restrictions. For example:

- SB 35 (sponsored by Senator Scott Wiener) offers a voluntary program for developers to streamline their approval process by meeting local housing delivery targets on infill sites that utilize existing zoning permissions.[25]

- AB 73 (sponsored by Assemblyman David Chiu) offers a zoning incentive payment to cities and counties to adopt a general plan for land-use development that contains a housing element.[26]

- SB 540 (sponsored by Senator Richard Roth) creates workforce housing opportunity zones.[27]

Six of the bills are amendments to reporting and enforcement rules already on the books and tighten penalties for cities and other jurisdictions that do not comply quickly enough. The remaining bills reinstate inclusionary housing ordinances, increase funding for migrant farmworker housing, and compel owners of subsidized housing structures to preserve that stock for sale under certain conditions. For instance, SB 2 (sponsored by Senator Toni Atkins) adds a $75 recording fee on certain real estate documents as a way to generate and sustain a potential annual revenue stream of $250 million for affordable housing costs.[28]

In November 2018, voters passed Proposition 1, a $4 billion general obligation bond for existing affordable housing programs for veterans, low-income multifamily housing, and housing near transit hubs, as well as funds to upgrade infill infrastructure and to support home-buying programs, more farmworker shelter funding, pilot programs, and other mortgage assistance and funding for manufactured homes and units.[29]

While all these actions support housing options, almost all of them (SB 540 is a notable exception) address low-income households. This has left the workforce housing market particularly vulnerable. Given this challenge, Lab participants identified the most common policy and financing barriers to increasing the supply of workforce housing.

POLICY BARRIERS

Policy Barrier 1: Local entitlement processes are slow, and state regulations are cumbersome

Multiple factors, including land and construction costs and government fees, contribute to high development costs in California. Lengthy local review processes and other regulatory hurdles with long timelines may jeopardize a project's financial viability and compound costs. Zoning is another issue; a 2018 Terner Center survey of city and county governments found that "between half and three-quarters of the developable land in much of the state is zoned for single-family housing only."[30] That must change; cities like Los Angeles and San Francisco need higher-density zoning allowances to accommodate greater numbers of people near job centers. Yet community review and rezoning processes, enforcement of the new laws, and legal impediments present challenges for developers and planners. Prevailing wage requirements can also keep some builders from entering new markets.

The California Environmental Quality Act (CEQA) is a regulation that has emerged as a target for criticism. Signed into law by Governor Ronald Reagan in 1970, it was intended to strengthen environmental stewardship and preservation. According to critics, it has instead become a cudgel against developers. In December 2012, the international law firm Holland & Knight analyzed 95 published opinions handed down from 1997 to 2012 by either the California Court of Appeal or state Supreme Court, in which plaintiffs had brought evidentiary challenges (i.e., CEQA lawsuits) to approved Environmental Impact Reports. The analysis found it "a remarkable statistical anomaly," relative to other administrative law litigation nationwide, that "opponents can expect to win CEQA challenges about the substantive adequacy of CEQA documentation approximately half the time." Explaining that the initial approval process (the entitlement process) and challenges through the court system can require extensive delays and cause uncertainty around outcomes and funding, the authors seem perplexed to find that the debate continues to be framed around "anecdotal examples of particular projects."[31]

That, of course, is just what critics of the analysis contend: that CEQA "has repeatedly stepped in where there are gaps in other environmental laws … and where the standards under other laws are too weak to protect public health."[32] At any rate, both Holland & Knight and CEQA supporters acknowledge that the number of cases litigated at a superior court level is quite small, only around 200 per year. The Natural Resources Defense Council argues that those 95 published appellate cases were just 5 percent of all the CEQA complaints filed with the state attorney general over the period, meaning that the small sampling and the one-off nature of cases winding up in appellate courts skew results. In addition, the environmental legal group notes that the attorney general looked at San Francisco (city and county) CEQA challenges for six months from July through December 2011 and found that "only 18 lawsuits were filed out of 5,203 projects considered under CEQA." Even for infill projects, the litigation rate was minuscule, about 0.3 percent.[33]

Even though few projects (around 1 percent) that undergo the CEQA review process result in litigation, the uncertainty surrounding funding and lost time is a real factor. Without some balancing mechanism to insulate infill projects, especially, from experiencing lengthy delays, CEQA will continue to be a contributing factor in the high costs of housing development.

Policy Barrier 2: Land use is subject to competing bureaucratic interests

On local, regional, and state levels, bureaucratic interests often compete over land-use priorities. Even though local jurisdictions (i.e., cities and counties) maintain control over local project approval, state agencies, such as HCD, the Governor's Office of Planning and Research (OPR), and the California Housing Finance Agency, among others, all influence housing development. The result may be multiple layers of review, competing regulatory frameworks, and bureaucratic overlays, creating tension and adding to uncertainty and downstream costs.

In 2014, for example, the passage of SB 743 required OPR to adopt new guidelines for evaluating just one impact of proposed developments: traffic flows. Instead of focusing on a "level of service" metric (e.g., delay times and road congestion) resulting from a proposed project, new evaluations would have to take into account how vehicle miles traveled might be affected by location near a transit hub or commerce like supermarkets, and how bicyclists, pedestrians, and other alternative modes of transportation would be accommodated.[34] With that change, the state signaled a policy preference to align land-use priorities that support housing and transportation linkages. This will entail structuring operational and financial incentives at the local level as well.

Policy Barrier 3: Available land is zoned for more lucrative returns

As reported in 2015 by the Legislative Analyst's Office, local jurisdictions tend to assess proposed development according to the financial gains and to favor commercial over residential projects. "This is because the increased sales and hotel tax revenue that a city [or county] receives from these developments often more than offsets the local government's costs to provide them public services," the office notes. Thus, unused sections of land tend to be zoned for commercial development, with subsidies and tax breaks added as incentives to attract investors.[35]

Housing developments, especially higher-density and multifamily projects, typically do not offset the local costs for assumed service delivery. Nor do they bring high revenue streams. As a result, these developments—unless they constitute luxury housing—struggle for approval and are often pushed to less desirable locations, far away from office sites and amenities. This holds statewide; exclusionary zoning practices (i.e., those that do not mandate a percentage of low- and moderate-income affordable housing units incorporated along with market-rate units) artificially boost property values, create scarcity, and perpetuate historical class-based zoning discrimination.

Policy Barrier 4: Tax increment financing mechanisms have not effectively supplied more housing

Perhaps nowhere are local fiscal constraints more evident than in redevelopment. California was one of the first states to create redevelopment agencies (RDAs, in 1945) and to enact tax increment financing (TIF, in 1952), which meant that once an area was designated as blighted, its redevelopment could be funded by borrowing against projected future tax increases that the new project would generate.

The RDA program became controversial over the years for a number of reasons, including claims by other public agencies that the program was diverting necessary funding and that the RDAs were shifting away from designating small urban lots and instead adding the "blight" designation to open land and farmland in order to build "big box stores and auto malls."[36] By 2008, RDAs were taking in 12 percent of all statewide property tax revenue, up from just 2 percent in 1997, and six of the redevelopment projects in 2008 were for deals larger than 20,000 acres, according to a 2014 analysis.[37] In addition, while the state had directed each RDA to create a Low- and Moderate-Income Housing Fund (LMIHF) and to reserve at least 20 percent of the RDA's TIF funding to capitalize it, for the period 2001-2008, local jurisdictions had used just 11 percent of their LMIHF funds for housing construction (some 101 jurisdictions had used their LMIHF funds for other purposes). Additionally, "as of fiscal year (FY) 2009–10, in fact, reports submitted to the California Department of Housing and Community Development (CA HCD) showed that the unencumbered portions of RDAs' housing funds totaled as much as $2.2 billion."[38] RDAs and the TIF incentives for builders were dissolved in 2011, although the California Redevelopment Association and the League of California Cities took their opposition to the state Supreme Court.

In 2014, Governor Jerry Brown signed SB 628, a law creating new Enhanced Infrastructure Financing Districts (EIFDs, somewhat similar to the RDAs) funded by TIF but subject to different rules. Now a private developer, not just the local government, could initiate the proposal for project funding, and bonds would require 55 percent voter approval. Affordable housing construction, whether for rental or homeowners, must stay affordable for, respectively, 55 and 45 years; the projects must be audited every two years; and the state has regained oversight authority, which it had lost over time to the RDAs.[39] Funding emphasis will likely be on projects that can be scaled up to work within a comprehensive general plan, rather than small projects, according to a 2016 analysis by the California Community Economic Development Council (CCEDC), which adds: "It is recommended that CRIA (Community Revitalization Investment Authority) and VLFs (Vehicle License Fee) are better financial tools for affordable housing than EIFDs. Additionally, VLF tax increment fees grow faster than property tax rates." Nonetheless, the CCEDC also noted that EIFDs work well for complex long-term projects that need to lock in funding.[40] Even so, without direct tax incentives and dedicated funding streams, it will be challenging to see how much these entities can contribute to increasing the workforce housing supply.

FINANCING BARRIERS

Financing Barrier 1: Soft costs and benefits are hard to quantify

Quantifying the real social benefits that attend investment in affordable housing can be difficult—communities are often quicker to comment on the negative consequences from a lack of affordable housing or affordable housing near job centers. In its statewide housing assessment through 2025, HCD lays out the possible implications for low- to moderate-income residents in three essential areas: overpaying, overcommuting, and overcrowding.[41]

Overpaying refers to the percentage of income spent on housing and its related expenses, often at the expense of health care or other necessities. Health issues that correlate with inadequate housing and frequent moves include anxiety, depression, poor nutrition, and developmental delays in young children. A policy brief from Health Affairs cites housing as one of the best-researched social determinants of health.[42] The HCD 2025 assessment cites several studies linking health and affordable housing; one 2002 article, from the National Library of Medicine of the National Institutes of Health, cites 150 studies on the subject.[43] Studies also exist that link workforce housing and productivity.[44] Of course, local studies would be valuable in encouraging more employers to buy into the idea of joining the housing conversation. Several school districts across the state, for example, have built or are planning to build affordable apartments for teachers and other staff.[45]

The negative environmental impacts of long commutes are well documented, as are the impacts on associated costs and worker productivity. The efficient housing of employees thus has the potential to save the state money over the long term through reduced pollution and greater use of public transportation. As for the consequences of overcrowding, the HCD reports that California lags behind only New York in terms of overcrowded households, which are defined as having more than one resident per room, including bedrooms, living rooms, or kitchens.[46] And a Health Affairs policy brief notes literature correlating overcrowding with the spread of infectious diseases and stress, among other consequences.[47]

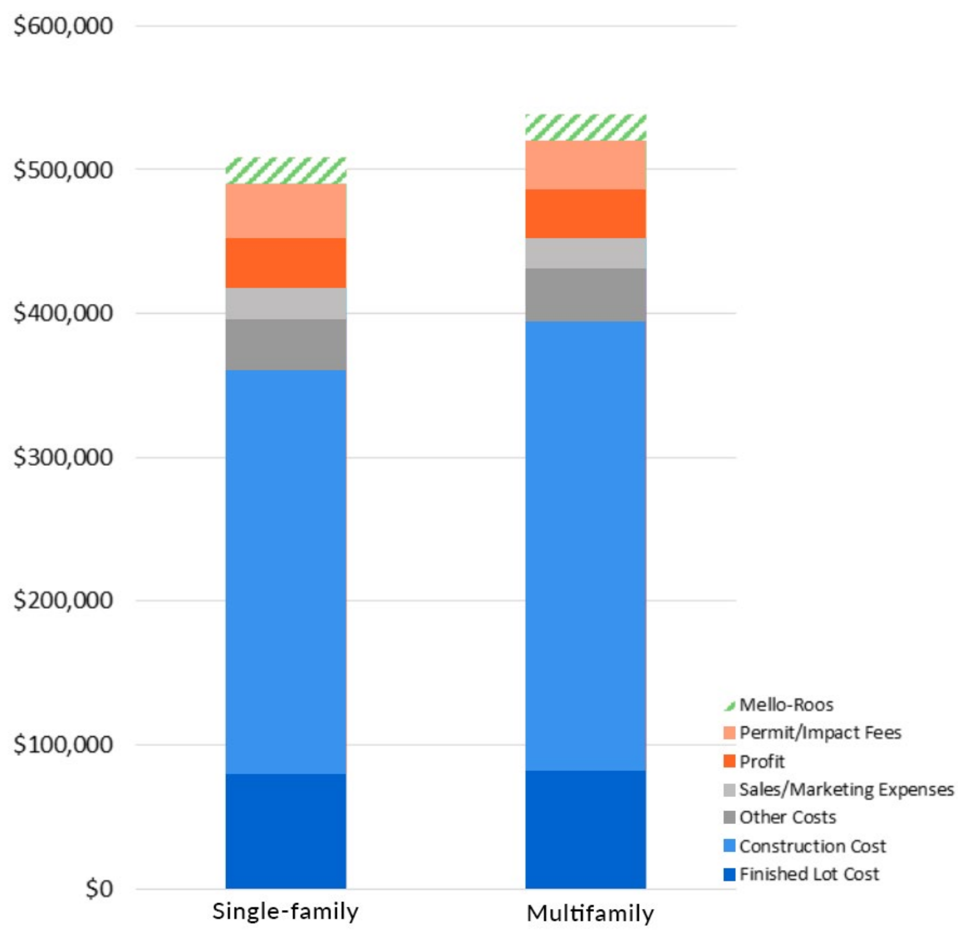
New research is finding ways to measure more of the benefits of stable housing—in reduced stress, neighborhood and job loyalty, happiness, safety, health, and early childhood development and education outcomes—but institutional investors tend to base their decisions on hard data, incentives, and bottom-line returns. To attract large-scale investment from public or private sources, it will be necessary to quantify the soft costs of maintaining the status quo relative to potential improvements by increasing workforce housing supplies. Demonstrating the positive impacts of investment in workforce housing is critical in achieving the scale that the state requires.

Financing Barrier 2: Costs are too high across the board

While urban redevelopment is expensive, some of the costs associated with building housing have become exorbitant. The University of California Berkeley's Terner Center for Housing Innovation identifies some of the rising predevelopment costs, such as land value, labor, construction materials, and permitting fees, as limiting for many developers in the number of projects they can complete. Concerning land value, prices in some of the job-rich coastal metro areas more than doubled from 2000 to 2016. In Los Angeles, land prices nearly tripled.[48]

High construction costs (i.e., combined material and labor costs) are of particular concern. According to the Terner Center, from January 2011 to January 2016, construction prices rose 11.8 percent nationwide. During the same period, they rose 12.6 percent in San Francisco and 13.6 percent in Los Angeles. In 2017, three cities in California (San Francisco, San Jose/Silicon Valley, and Oakland) ranked among the most expensive construction markets in the US.[49] The Terner Center cites work claiming that innovations in homebuilding, such as prefab modules and standardized components, "could encourage productivity and reduce construction costs by about 30 percent worldwide."[50] Figure 3 breaks down construction costs from start to finish for single- and multifamily homes.

Figure 3: California Sale Price Components, 2016



Source: California Center for Jobs and the Economy, "Regulation & Housing: Effects on Housing Supply, Costs & Poverty" 2017, p. 16.

In addition, development fees, which can include impact and offset fees, are on the rise in California, and nearly three times the national rates.[51] When Terner Center researchers looked at development fees in seven California cities, they found a vast range of prices and types of fees, not much oversight over how prices are set or for what, and minimal coordination among agencies, even within the same jurisdiction. The study notes that "without standardized systems to estimate development fees, builders cannot accurately predict total project costs during the critical predevelopment stage, leading many builders to rely on informal relationships with planners and building officials to obtain accurate estimates."[52]

Financing Barrier 3: The corporate sector is not sufficiently engaged

With the strong correlation between job-rich hubs and high housing costs, many Lab participants agreed that the large corporations that attract high-wage workers should play a role in addressing the issue. As noted above, an improvement in quantifying the soft benefits to improved housing can be instrumental in enticing the private sector to play a role. In recent months, a handful of corporate and private-sector stakeholders have announced plans to address workforce housing in their communities. This is a welcome start, but there remains significant room for further participation by the private market.

Financing Barrier 4: Smaller developers lack financing options

Even the most experienced, savvy, and large-scale developers find it challenging to navigate funding and financing options for projects. For smaller developers, it is even tougher, particularly in the predevelopment stages, where expenses are high and delays are costly. They are often not able to access construction loans if they have limited amounts of home equity or capital. Yet these smaller players can and should participate in any number of affordable housing scenarios, from multifamily structures to preserving the existing stock and developing single-family affordable homes. The ADU market seems particularly poised for growth, with reported 790,000 units that could be created.[53] This smaller market can make significant inroads into increasing the housing stock and augment the large-scale development that is simultaneously needed.

INNOVATIVE SOLUTIONS

Building on the 2017 legislative housing package and Governor Gavin Newsom's stated goal of ramping up construction, Lab participants recommended a number of policy and financial solutions that align state priorities and address three areas: (1) the lack of dedicated funding streams for workforce housing, (2) overly restrictive development standards, and (3) fiscal incentives for use by local governments to prioritize workforce housing land-use permits.

POLICY SOLUTIONS

Policy Solution 1: Offer streamlined entitlement processes for qualifying projects

Even as California waits to see how the 2017 housing package fares through implementation, state leaders should continue to look at ways to streamline the entitlement process for projects that meet density and affordability standards. Los Angeles, for example, does not use mandatory inclusionary provisions for housing development, although these are standard in other major US cities (including Seattle, New York City, and Minneapolis) as a means to meet demand, mitigate financial risk, and reduce development costs.

New York City has both mandatory and voluntary inclusionary housing programs but sweetens the pot by adding zoning enhancements, regulatory streamlining, and incentives.[54] In Minneapolis, where some 15,000 housing units became "unaffordable" because of rising property values and higher rents, the city council has been at work for the past few years on its 2040 general plan, prioritizing high-density housing in and near downtown, adding mixed-income housing, and enacting transit-oriented development policies.[55] California would do well to study successful inclusionary programs at work in other cities.

The state could also offer planning and entitlement concessions to developers who comply with inclusionary recommendations. Provisions to streamline CEQA already exist (i.e., SB 375, the Sustainable Communities and Climate Protection Act of 2008) for qualifying infill development projects and could be expanded to fast-track development that emphasizes workforce housing. CEQA streamlining for infill projects, accompanied with reforms in the RHNA process that embrace inclusionary zoning provisions, would reduce timelines and increase housing supply for all income levels.

SANTA ROSA HOUSING ACTION PLAN

KEY TAKEAWAY:
There must be incentives for development, and policy must be enforced from the top down to meet local housing needs.

Sonoma County, in the wine country to the north of San Francisco, has a strong economy. So strong, in fact, that companies have had a hard time finding workers and a harder time finding affordable housing for them.

To address the housing concerns, the City of Santa Rosa implemented a Housing Action Plan in 2016, with new policies meant to facilitate infill development and streamline housing production.[56]

The plan included (1) reducing or eliminating fees associated with accessory dwelling units, (2) implementing a high-density residential incentive program for downtown Santa Rosa through increased building height requirements and decreased parking requirements, (3) designating downtown Santa Rosa as a federal Opportunity Zone, (4) offering density bonuses, and (5) evaluating city-owned land as sites for housing development.[57] The city also developed the only Renewal Enterprise District in the state, allowing the city and county to work together to implement a shared vision for housing development in the region by leveraging real estate assets, regulatory authority, and new funding sources.[58]

The Northern California firestorm of October 2017 destroyed some 5,300 housing units in Sonoma County, with the City of Santa Rosa hardest hit, reportedly losing 2,834 homes, or 5 percent of its housing stock.[59] This natural disaster only heightened the need to develop housing as a way to persuade companies to stay and attract new firms.

NEXT STEPS

- Establish a task force of key stakeholders (e.g., labor unions, local government, and investors) to review current state policies and create an action plan for developing new workforce housing.
- Create pilot programs in key metro areas to test policies from other cities.
- Survey existing state policies that have the potential to incorporate low- and moderate-income housing into market-rate developments.

Policy Solution 2: Align state funding programs to incorporate and incentivize a housing component

In 2006, California set out to assume an ambitious leadership role in climate change policy. Through measures like AB32, the 2006 California Global Warming Solutions Act (which aims to reduce greenhouse gas emissions to 1990 levels by 2020), state leaders began to align transportation, land-use, and infrastructure decisions.[60] Absent from this original policy framework, however, was a clear housing plan designed to increase density along transit corridors, in infill sites, and around job centers.

The state has established several programs that could be modified to support needed funding for housing—programs like the Affordable Housing and Sustainable Communities program (AHSC), established in 2014, and the brownfield remediation program, which cleans up the polluted real estate under abandoned gas stations, rail lines, closed military bases, etc. AHSC funds, administered by HCD, target disadvantaged communities by providing support for affordable housing, accessible transportation, and jobs. The funds are allocated among a range of projects that support infill and development as a way to reduce environmental impacts.[61] Coordination should be improved across jurisdictions and agencies to maximize the impacts of existing funds.

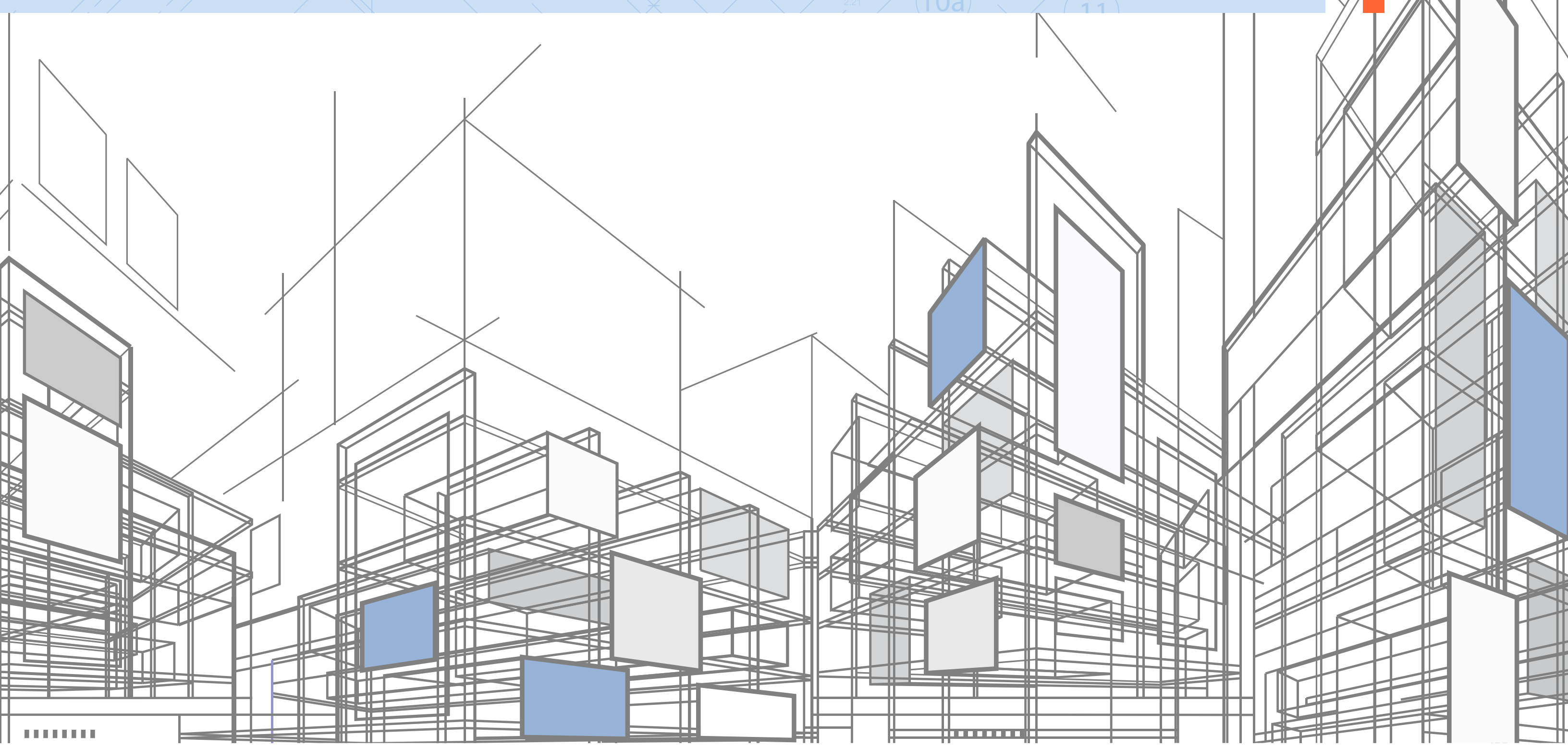
The California Recycle Underutilized Sites (CALReUSE) program was established in 2007 as a component of the 2006 Proposition 1C Housing and Emergency Shelter Trust Fund Act, which set aside $2.85 billion for housing. CALReUSE targeted “brownfield cleanup that promotes infill residential and mixed-use development, consistent with regional and local land-use plans (SB 86, 2007).[62] It awarded loans of up to $5 million with financing available “on a rolling or monthly basis as long as funds were available.” However, budgetary constraints in early 2011 curtailed the program, which is now oversubscribed and no longer accepting applications.[63] State leaders could recapitalize the CALReUSE program to address the workforce housing space and use a revolving loan model in which the state would provide low-cost loans for brownfield cleanup, with returns recycled back into the state-run fund.

OAKLAND COMMUNITY LAND TRUST

KEY TAKEAWAY:
Non-traditional sources of funding can be allocated to housing.

Founded in 2009 amid the foreclosure crisis, the Oakland Community Land Trust grew out of previous efforts to keep homes permanently affordable for owners. Under its current model, the Land Trust acquires at-risk properties, stabilizes the buildings, and works with tenants to develop co-operative (co-op) ownership opportunities.[64]

The Land Trust targets units that have no other programmatic or funding streams to support affordability. The financing behind each project is slightly different, but the Oakland Community Land Trust has been creative when it comes to identifying funding streams that are not typically allocated toward housing. The Land Trust has also worked closely with the City of Oakland to raise bond funding. Tapping into a recent bond issue for infrastructure, Alameda County Measure KK, the Land Trust leveraged dollars allocated toward anti-displacement measures.



NEXT STEPS

- Align the state's climate goals and related policies, with a focus on housing and land-use planning, by quantifying the linkage between housing and vehicle travel/commuting and associated environmental impacts.
- Establish a new funding formula that supports state goals and policies for housing needs.
- Recapitalize the CALReUSE program for brownfield remediation at infill sites and consider a revolving loan funding model.

Policy Solution 3: Inventory, organize, and incentivize land for housing development

State and local government can support affordable housing efforts by making available publicly owned parcels of land. The state acquires land from underutilized, surplus, vacant, and tax-foreclosed parcels. For housing policy purposes, coordinated "land bank" programs can provide a valuable tool to support development and preserve supply through acquisition.

In early 2019, Governor Newsom directed the state's Department of General Services (DGS) to conduct an inventory of California's developable public land. DGS found that of roughly 44,000 state-owned parcels, nearly 1,500 were identified as potentially viable for housing projects.[65] As demonstrated in the governor's land inventory, state and local jurisdictions have an opportunity to combine vacant or underutilized properties into more extensive portfolios available for development projects. With coordinated alignment and a broader strategic vision, the effort could use this state-owned land bank to create denser housing near job centers and along existing corridors and transit routes.

Taking inventory of available land is a large part of the battle, but funding is also crucial. The establishment of a regional housing trust would finance the development of properties in the land bank and fund a range of new construction, acquisition, and preservation. This model could be strengthened if it were launched in tandem with an effective replacement of California's redevelopment agencies (RDAs), to be discussed in the next section. Controversial zoning changes would be necessary since a majority of California's residential neighborhoods are zoned for single-family housing[66] with restrictions against multifamily developments.[67] There have been attempts at rezoning. Senate Bill 50—introduced in December 2018, amended several times, and recently shelved until 2020—was designed to streamline entitlements by easing restrictions (e.g., on mandated parking minimums and building height limitations) to build near high-quality public transit (bus and rail) stops and job hubs.[68]

Because rezoning has long been a political hot potato, Lab participants suggested creating a state land-use task force amid a healthy discussion on the merits of using zoning as an incentive for affordable housing. Given that land value plays such a significant role in the cost issue, particularly in California, part of the charter of a new task force could be to test the viability of a land value tax on single-family zoned jurisdictions. This land value tax would not be the same as a property tax; it would tax the current use of the land, not its potential value.

While a frequent criticism of land tax is that land is hard to value,[69] this approach would value the land solely according to its zoning permissions. Supporters of the idea argue that a land value tax could put a brake on the rising housing prices. For example, a 2018 study demonstrates that "five urban agglomerations account for 48 percent of all urban land value in the United States."[70] (These are New York City; Chicago; Washington, DC; San Francisco; and Los Angeles-Long Beach). Another study asserts that "the effect of changing the housing supply regulation only in New York, San Jose, and San Francisco to that in the median US city" would have produced, between 1964 and 2009, a US GDP difference of 8.9 percent.[71]

NEXT STEPS

- Identify public owners of land surveyed in the DGS study.
- Work at the state level to incentivize landowning agencies to incorporate their properties into a state land bank to act as a clearinghouse.
- Require development proposals to the state housing land bank to include detailed information on social impacts and workforce housing allocations. Equal weight must be given to the social and financial components of the application approval process.
- Empower a regional housing trust with authority to combine available public land for development purposes.
- Recruit a state land-use task force to research the viability of a single-family zoned land value tax.

Policy Solution 4: Establish an effective housing TIF replacement program

Until they were dissolved in 2011, local redevelopment agencies (RDAs) were the single largest locally generated source of funds available to communities, via tax increment financing, or TIF, to support affordable and workforce housing programs. The loss of these programs has seen housing lose $1 billion in funding.[72]

However, California is in the fortunate position of holding a budget surplus, and state leaders should consider leveraging a portion of it to recapitalize the RDAs with a renewed mission charter. Enhanced Infrastructure Financing Districts, or EIFDs, are gaining momentum for infrastructure development, and a statewide program dedicated to the housing market is vitally needed. A new program in each community, perhaps called an Affordable Housing District, could prioritize the workforce housing component. New programs should prioritize housing rather than commercial development to avoid some of the waste and abuse that plagued the former RDA program.

An Affordable Housing District program stands to make a significant impact, but it will be equally important for California to identify new funding streams. For this reason, Lab participants recommended that any Affordable Housing District be under the supervision of the California Infrastructure and Economic Development Bank, which itself comes under the guidance of the Governor's Office of Business and Economic Development. This would allow loans to be cross-collateralized, a change from previous programs, and lower borrowing costs. Lab participants suggested the Affordable Housing Districts require all taxing agencies in a jurisdiction to contribute to the overall fund, another change from earlier RDAs.

NEXT STEPS

- Develop a new TIF housing program structured to divert a certain percentage of county taxes to support low- and moderate-income housing in that district.
- Prioritize projects at a regional level that will most significantly impact workforce housing availability.

FINANCING SOLUTIONS

Financing Solution 1: Enable partnerships to better quantify the soft costs

Attracting more private capital will be easier if developers can show quantifiable risk/return benefits. Anticipated higher future property taxes, for example, can be leveraged to secure TIF investment. Having the ability to prove the overall incremental uptick in the value of a community from an upfront investment is essential in attracting a larger qualified investor base.

Institutional investors have a fiduciary duty to deliver the highest value to the benefit of their clients. The Employee Retirement Income Securities Act (ERISA) is a federal law that sets minimum standards for retirement and health plans.[73] Both the California Public Employees' Retirement System and the California State Teachers Retirement System are some of the largest investors in the country, and their pensioners tend to stay in California. The public pensioners of these plans make up a significant component of the middle-income workforce across the state and may favor the option of contributing to large-scale funds for projects that confer social benefits. One recommendation from the Lab would incorporate a social impact standard under ERISA.[74] Given pension funds are unlikely to be able to accept an overall lower rate of return, and a broad shift could result in financial burdens to municipalities that are equally interested in investing in housing, Lab participants recommended developing a special purpose fund. A targeted fund to invest in California-based housing projects that provide a minimum guaranteed rate of return could be an effective means to attract funds to co-invest in middle-income housing. A fund available at the state level to large public investment plans could have a significant positive social impact on the community.

To encourage institutional investment, it is also important to track the effects of stable housing. Health benefits, as noted, are well researched and relatively easy to see. For example, Kaiser Permanente, Enterprise Community Partners, and East Bay Asian Local Development Corporation are discussing opportunities to monitor the health implications and long-term cost savings associated with stable housing at different income levels.[75] Cross-sector partnerships will be essential to tackle the complex issue of housing.

NEXT STEPS

- Establish social and financial metrics to prove the universal benefit of housing investments.
- Define key metrics that result in a productive workforce and establish how many Californians are impacted and improved by a stable living environment.
- Quantify the existing and future costs in terms of economic productivity and environmental impacts if the housing crisis is not addressed

Financing Solution 2: Address high costs of development

An important contributing factor to high building costs is the lack of skilled labor. A 2018 survey by the Associated General Contractors of America found that 80 percent of construction firms have difficulty filling hourly craft positions, particularly pipe layers, sheet metal workers, carpenters, concrete workers, and pipefitters/welders that represent the bulk of the construction workforce.[76] Lab participants suggested a construction innovation fund that would pool public pension fund assets through a platform that invests in local housing or infrastructure. Investments could fund training programs to increase the pool of local talent. Alternatively, funds could be used to offer low-cost loans to innovative construction firms struggling to secure financing. This recommendation builds on the idea of local asset owners investing directly into their communities.

Lab participants also suggested a joint venture craft labor (and subcontractor) training program. Here, California can look to a model in Oregon. The Columbia-Willamette Workforce Collaborative is a partnership whose mission is to develop the skilled workforce in the region through three areas of focus: connecting young people to construction jobs and training opportunities, advancing equity and diversity in the construction industry, and improving retention of existing apprentices and workers.[77] Developing a similar program in California would help lower the upfront building costs. A California collaborative would serve as an umbrella organization to integrate educational programs, such as the Los Angeles Trade Technical College, with corporations, business chambers, school districts and economic development organizations.

NEXT STEPS

- Establish a pilot-pension construction-innovation fund.
- Identify partnerships for a joint venture craft labor training program.

Financing Solution 3: Attract more private-sector participants to the space

Private companies are also stepping up to help deliver housing, not just for their employees but also for the service sectors in their communities that their company success has affected. Recently, several large firms have launched privately seeded funds.

In early 2019, Microsoft launched such a fund to help the housing crisis on the east side of King County, Washington, where most of its workers live. The plan, according to the Microsoft website, consists of $225 million in below-market-rate loans available to preservers and developers of middle-income housing, a sector with few financial incentives; $250 million in market-rate loans to support low-income housing in the greater Puget Sound region; and $25 million in philanthropic grants to address homelessness in the greater Seattle region.[78] Microsoft notes that $125,000 is the minimum income needed to afford the median home in its area, a figure that excludes 54 job categories.[79]

Nonprofit Kaiser Permanente, with headquarters in Oakland, has also endeavored to find affordable housing. In May 2018, the company announced the creation of a $200 million Thriving Communities Fund to address housing stability in its markets[80] and, in January 2019, Oakland received $5.2 million for the purchase and renovation of a 41-unit housing complex. This seed investment was the city's first "impact investment" from the larger fund, via a smaller entity targeting the wider Bay Area, the Housing for Health Fund, a joint-equity venture of Kaiser and Enterprise Community Partners, a nonprofit that finances home buying and building, and builds affordable housing. Kaiser also announced its commitment of $50 million for a $100 million loan fund available for construction and preservation of low-income housing in its service areas nationwide; the partner for the loan match fund is again Enterprise Community Partners. "Access to affordable housing is a key component to Kaiser Permanente's mission to improve the health of our members and the communities we serve," said CEO Bernard Tyson, "and to advance the economic, social and environmental conditions for health."[81]

Other players in the space have taken a pooled resource approach. The Housing Trust of Silicon Valley, a Bay Area community development financing institution, attracts funding ($1 million minimum) from corporate and business leaders through its TECH Fund, launched in 2017 and backed by the Trust's AA- credit rating from Standard & Poor's.[82] The fund issues short-term loans to developers to cover early-stage costs and repays investors at the end of the term.[83] As of the time of the Lab, the fund had raised $52 million and was serving a range of populations, from the homeless to renters and first-time homebuyers.

Also in January 2019, the public-private Partnership for the Bay's Future was launched as a joint venture among many big names in the Bay Area: the Chan Zuckerberg Initiative, the San Francisco Foundation, the Ford Foundation, the San Francisco branch of Local Initiative Support Coalition (SF LISC), Local Initiatives Support Corporation, Facebook, Genentech, Kaiser Permanente, the William and Flora Hewlett Foundation, the David and Lucile Packard Foundation, the Stupski Foundation, and Silicon Valley Community Foundation. The Partnership for the Bay's Future intends to build a $500 million investment fund "to expand and protect the housing stability of up to 175,000 households over the next five years and preserve and produce more than 8,000 homes over the next five to 10 years."[84] A related policy fund supports preservation and affordability protection initiatives. The fund is managed by SF LISC and will invest in preservation and "help middle-income workers with housing costs while accelerating the process of getting people experiencing homelessness into homes."[85]

All of these initiatives address the housing crisis in unique and impactful ways, but there is still a tremendous gap to fill. Commitments must be amplified to highlight opportunities for investment. The programs developed by Kaiser Permanente, Microsoft, the TECH Fund, and the Partnership for the Bay's Future demonstrate the value of striving for triple bottom line (financial, social, and environmental) returns.

WILL OPPORTUNITY ZONES BENEFIT HOUSING?

The use of Opportunity Zones as a financing incentive was a topic of considerable debate. The Department of Treasury created Opportunity Zone tax credits in 2017, as part of the Tax Cuts and Jobs Act, as a means to invest in low- to moderate-income communities through Qualified Opportunity Funds (QOF). A QOF is an investment vehicle, set up as a partnership or corporation, to invest in eligible property or businesses located in one of the 8,700 designated Opportunity Zones. It is capitalized with the proceeds from the sale of assets, and, for the investor, the capital gains are deferred incrementally depending on how long the investment lasts.[86]

In April 2018, the IRS designated 879 nominated sites in California as Opportunity Zones,[87] and Lab participants discussed how Opportunity Zones could play a role in California for workforce housing. There was a consensus that it is unlikely that an investment made in an Opportunity Zone will change the viability of a project. If the deal was not expected to be profitable before investing through an Opportunity Zone, the projected tax benefit may not be sufficient to make it any more attractive.

But Opportunity Zones are attracting interest in investments in office space and company relocations; investors whose businesses can achieve half of their gross income from within the Opportunity Zone qualify for the tax benefits. Thus, discussion concentrated on the idea of locating modular and prefab housing facilities in Opportunity Zones. An equity investment in these companies could have a positive impact on expanding the modular housing market and growing it in proximity to neighborhoods that will benefit from the end product.

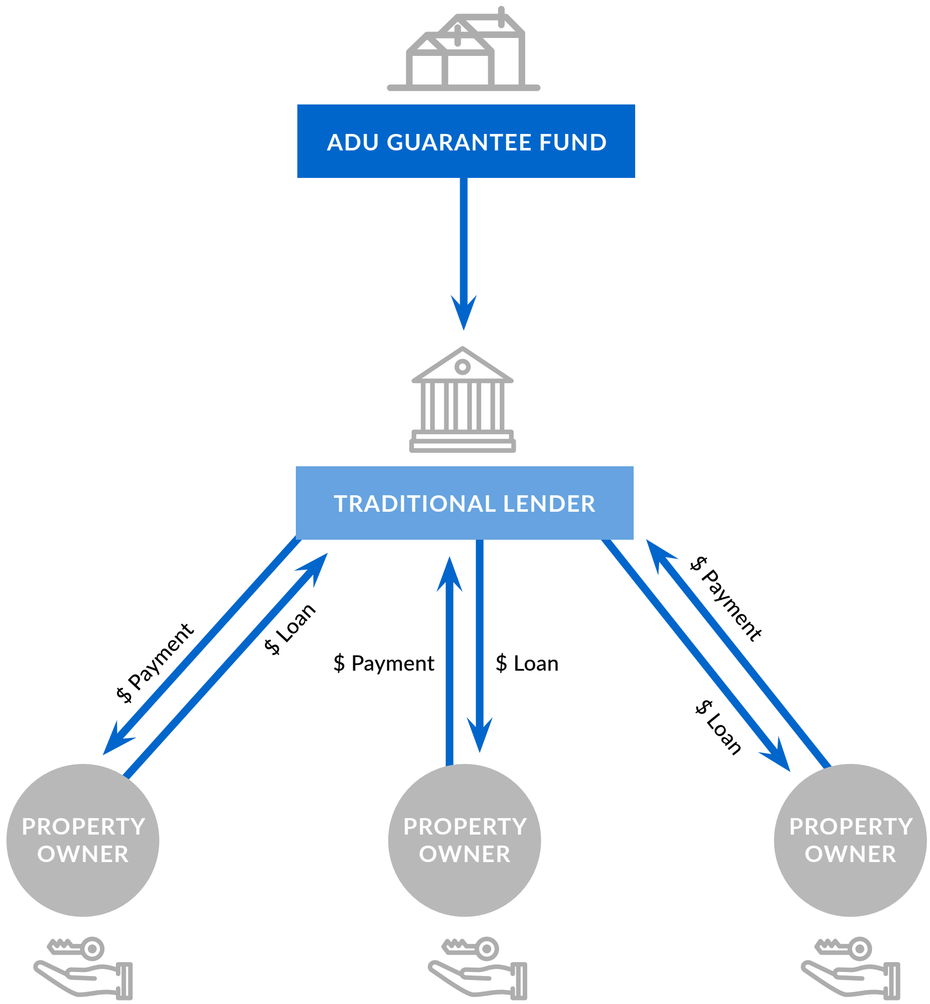
NEXT STEPS

- Engage private companies whose headquarters are in California, or who have a large presence in the state, in the housing discussion.
- Highlight private funding sources already investing in workforce housing across the country.
- Amplify opportunities for investment available to institutions and corporates that are interested in contributing to a pre-existing fund.

Financing Solution 4: Use innovative financing solutions for small developers

Involving the big players, meaning the large corporations and state pension funds, is key. But, as already noted, small developers and homeowners can contribute to the market via the construction of accessory dwelling units (ADUs) on residential property, particularly in sprawling cities like Los Angeles. However, loan products specifically for ADU financing do not currently exist, and the relatively small loans are often not financially worthwhile for large lenders. The average development costs for an ADU can range from $20,000 to $350,000, with about 70 percent going toward hard construction costs and the remainder toward soft costs like professional services, permits, and fees.[88] Lab participants discussed the opportunity to create a guarantee pool to offer small lower-cost loans for low-income residents to build out ADUs.

Figure 4: ADU Guarantee Fund Model



Source: Milken Institute.

While ADUs can play a role in addressing California's middle-income housing crisis, they are not an option for all residents or cities. Larger-scale developers will also face challenges when it comes to financing workforce projects. Participants at the Lab discussed bridge financing options for developers who may not be as well-capitalized but still ensure affordability. The Lab recommends that this become a component of the state housing land bank.

GENESIS LA

KEY TAKEAWAY:
Offering small and flexible loans to homeowners can spur innovation and creatively address housing demands.

ADUs provide an alternative means to add density in established, built environments, as they are independent living facilities and can be designed to fit within the existing primary structure.[89] This housing type has many benefits, including a location near job and transit sites, and without the major land and infrastructure costs associated with new construction. The state has taken action in recent years to reduce barriers to ADU construction through a reduction in parking requirements and a streamlined approval process if the unit meets certain requirements. Local governments, especially in larger metro areas, have also taken steps to support ADU construction through pilot programs, fee reductions, and permit streamlining.[90] The financing aspect has received less attention.

Enter Genesis LA, a certified community development financial institution (CDFI) and community development entity (CDE). In its capacity as both a CDFI and CDE, Genesis provides ADU financing and works to develop solutions for small-scale supportive housing for the homeless outside of large government tax credits.[91] In 2017, Genesis LA provided funding for an ADU pilot program through the Mayor's Office and its Innovation Team, in coordination with nonprofit urban design organization LA-Más and Habitat for Humanity. The ADU pilot project had a construction budget of around $300,000 and was designed to serve as a model for affordable construction, contextual design, financial loan innovation, and future ADU policy.[92]

Genesis was also one of two nonprofits awarded a $3.5 million grant in 2017 from JP Morgan Chase & Co. to spur construction of ADUs through low-cost, flexible loans to homeowners in exchange for their agreement to keep units as low- and middle-income rentals. There is hope that these models could become examples for other regions in the state.[93] By providing financing tools to homeowners, organizations like Genesis LA make it easier for them to take advantage of streamlined ADU policies and become an essential source of affordable housing.

NEXT STEPS

- Capitalize a pilot guarantee pool to finance loans to small developers.
- Market the opportunity for homeowners who are eligible for ADU financing.
- Explore a bridge loan financing model, through the state housing land bank, as an option for developers that ensures a certain percentage of moderate-income housing.

CONCLUSION

As California embarks on a political cycle with a new governor, the state must prioritize housing development across income levels. California has the fifth-largest economy in the world, and if the state is to remain an economic powerhouse, the residents who perform the heavy lifting—particularly those in the middle class who do not qualify for assistance but cannot afford housing—must receive help. This report has looked at some of the substantial political and policy challenges, including overly complex approval processes, competing priorities for urban land, and state funding options. New approaches to financing that include the public and private sectors can bring down the high costs during crucial early development phases, attract a broader pool of capital sources, and engage small developers and private property owners. California promotes itself to the rest of the world with the slogan "Dream Big." We must, too, if we intend to achieve the goal of an adequate supply of workforce housing.

ACKNOWLEDGMENTS

Maressa Brennan, Matt Horton, and Jennifer Lovett prepared this report.

We are grateful to those who participated in the Financial Innovations Lab for their contributions to the ideas and recommendations summarized in this report. We would especially like to thank JPMorgan Chase & Co. for its partnership on the project. We want to thank Milken Institute colleagues Caitlin MacLean and Diana German for their work on the project. Finally, we would like to thank editor Dinah McNichols for her work on the report.

LAB PARTICIPANTS

Megan Abell, Director, Advocacy and Organizing, TechEquity Collaborative

Kyle Arndt, Partner, Bocarsly Emden Cowan Esmail & Anrdt LLP

Aron Betru, Managing Director, Center for Financial Markets, Milken Institute

Richard Bloom, Assemblymember, 50th District, California State Senate

Maressa Brennan, Associate Director, Innovative Finance, Milken Institute

Charlie Buckley, Head of UHNW Coverage, Credit Suisse

Annette Cain-Darnes, Board Trustee, Sutter Health

Laura Foote Clark, Executive Director, YIMBY Action

Michael Cohen, Co-Founder, Strada

Devin Culbertson, Senior Program Director, Enterprise Community Partners

Naomi Cytron, Regional Manager, Northern California, Federal Reserve Bank of San Francisco

Kari Dohn Decker, Managing Director, Corporate Responsibility, JP Morgan Chase & Co.

Justin Ewers, Policy Consultant, California Forward

Théo Feldman, Advisor, Milken Institute

David Garcia, Policy Director, UC Berkeley Terner Center

Diana German, Associate, Center for Regional Economics, Milken Institute

Nathan Ho, Senior Director, Housing and Community Development, Silicon Valley Leadership Group

Ariane Hogan, Local Government Affairs, Genentech

Matt Horton, Associate Director, Center for Regional Economics, Milken Institute

Harry Keiley, Board Member and Investment Committee Chairman, California State Teachers' Retirement System

Daniel Kianmahd, Principal, The Panorama Group

Gee Kim, Principal, Turner Impact Capital

Steve King, Executive Director, Oakland Community Land Trust

Chris Lee, Director, Center for Financial Markets, Milken Institute

Jennifer Lovett, Associate, Center for Regional Economics, Milken Institute

Jamie Lu, Manager, Alternative Investments, Dignity Health

David Lynn, CEO, Mission Driven Finance

Caitlin MacLean, Senior Director, Innovative Finance, Milken Institute

Julie Mahowald, CFO, Housing Trust Silicon Valley

Racheal Meiers, Lead, Economic Opportunity & Impact Investing, Kaiser Permanente

Ben Metcalf, Director, California Department of Housing and Community Development

Naomi Motomura, Senior Design Manager, Gensler

Karen Parolek, Principal, Opticos Design, Inc.

Darin Ranelletti, Policy Director for Housing Security, Mayor's Office, Oakland

Tim Recker, Chief Investment Officer, The James Irvine Foundation

Matt Regan, Vice President, External Affairs, Bay Area Council

Tim Romer, CEO, Fundamental Advisors LP

Peter Rumble, CEO, Santa Rosa Metro Chamber

Doug Shoemaker, President, Mercy Housing California

Joshua Simon, Executive Director, East Bay Asian Local Development Corporation

Sindy Spivak, Senior Vice President, Bank of America Merrill Lynch

Mike Stegman, Senior Fellow, Center for Financial Markets, Milken Institute

David Steinwedell, CEO, Affordable Central Texas

David Wasserman, Principal, Wasserman Real Estate Capital

Renee Webster-Hawkins, Executive Director, California Pollution Control Financing Authority

Chelsea Wells, Associate Director, Grants, Milken Institute

Cynthia Wong, Executive Director, Local Initiatives Support Corporation (Bay Area)

ENDNOTES

1. Chang-Tai Hsieh and Enrico Moretti, “Housing Constraints and Spatial Misallocation,” National Bureau of Economic Research, (2015), accessed June 3, 2019, https://www.nber.org/papers/w21154.pdf.
2. “California’s Housing Future: Challenges and Opportunities,” California Department of Housing and Community Development, (2018), accessed July 12, 2019, www.hcd.ca.gov/policy-research/plans-reports/docs/SHA_MainDoc_2_15_Final.pdf.
3. Partnership for the Bay’s Future, accessed July 23, 2019, https://www.baysfuture.org/the-opportunity/.
4. “Affordable Housing: Who needs affordable housing?”, US Department of Housing and Urban Development, accessed August 26, 2019, https://www.hud.gov/program_offices/comm_planning/affordablehousing/.
5. Daniel Herriges, “Localizing Affordable Housing,” Strong Towns, (2016), accessed April 29, 2019, https://www.strongtowns.org/journal/2016/11/29/localizing-affordable-housing.
6. “Priced Out," Terwilliger Center for Workforce Housing, Urban Land Institute, accessed October 24, 2019, http://americas.uli.org/wp-content/uploads/sites/2/ULI-Documents/Priced-Out-San-Francisco-FINAL.pdf.
7. “FY 2019 Income Limits Documentation System,” California Department of Housing and Community Development, accessed June 3, 2019, http://www.hcd.ca.gov/grants-funding/income-limits/index.shtml.
8. Ibid.
9. Margot Roosevelt, “Who Moves to California? The Wealthier and Better Educated, Mostly,” *Los Angeles Times*, (December 21, 2018), accessed July 11, 2019, www.latimes.com/business/la-fi-california-census-migration-20181221-story.html.
10. “California Losing Residents via Domestic Migration,” Legislative Analyst’s Office, (2018), accessed July 11, 2018, https://lao.ca.gov/laoecontax/article/detail/265.
11. “Special Report: California,” Edelman Trust Barometer, (2019), accessed July 11, 2019, www.edelman.com/sites/g/files/aatuss191/files/2019-02/2019_Edelman_Trust_Barometer_Special_Report_California.pdf?utm_source=website&utm_medium=special_report_california&utm_campaign=downloads.
12. “Supplemental Poverty Measure,” US Census, (2017), accessed July 11, 2019, www.census.gov/content/dam/Census/library/publications/2018/demo/p60-265.pdf.
13. “Regional Housing Needs and Housing Elements,” California Department of Housing and Community Development, accessed July 11, 2019, http://www.hcd.ca.gov/community-development/housing-element/index.shtml.
14. “Missing the Mark: Examining the Shortcomings of California’s Housing Goals,” Next 10, (2017), accessed July 12, 2019, www.next10.org.

15. "California Tops 39.9 Million Residents at New Year," California Department of Finance, (May 1, 2019), accessed July 12, 2019, www.dof.ca.gov/Forecasting/Demographics/Estimates/e-1/documents/E-1_2019PressRelease.pdf.
16. Matt Levin, "The state passed a major housing package last year. Is it working so far?", *CALmatters*, (2018), accessed April 25, 2019, https://calmatters.org/articles/the-state-passed-a-major-housing-package-last-year-is-it-working-so-far/.
17. "California's Housing Future: Challenges and Opportunities Final Statewide Housing Assessment 2025," California Department of Housing and Community Development, (February 2018), accessed July 12, 2019, www.hcd.ca.gov/policy-research/plans-reports/docs/SHA_MainDoc_2_15_Final.pdf.
18. Ibid.
19. Ibid.
20. "Accessory Dwelling Unit (ADUs)," California Department of Housing and Community Development, accessed June 3, 2019, www.hcd.ca.gov/policy-research/AccessoryDwellingUnits.shtml.
21. "Housing Choice Vouchers Fact Sheet," US Department of Housing and Urban Development, accessed July 13, 2019, www.hud.gov/program_offices/public_indian_housing/programs/hcv/about/fact_sheet.
22. "About Housing and Community Development," California Department of Housing and Community Development, accessed April 25, 2019, www.hcd.ca.gov/about/mission.shtml.
23. "About Us," California Housing Finance Agency, accessed July 13 2019, www.calhfa.ca.gov/index.htm.
24. "California's 2017 Housing Package," California Department of Housing and Community Development, accessed May 10, 2019, www.hcd.ca.gov/policy-research/lhp.shtml.
25. "Senate Bill No. 35–Chapter 366: SB-35 Planning and zoning: affordable housing: streamlined approval process," California Legislative Information, accessed May 1, 2019, https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180SB35.
26. "Assembly Bill No. 73–Chapter 371: AB-73 Planning and zoning: housing sustainability districts," California Legislative Information, accessed May 1, 2019, https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180AB73.
27. "Housing Bills Summary," California Department of Housing and Community Development, accessed July 13, 2019, www.hcd.ca.gov/policy-research/lhp.shtml#summary.
28. Ibid.
29. "California Proposition 1, Housing Programs and Veterans' Loans Bond (2018)," *Ballotpedia*, (2018), accessed July 12, 2019, https://ballotpedia.org/California_Proposition_1,_Housing_Programs_and_Veterans%27_Loans_Bond_(2018).

30. Reid Mawhorter, “Local Housing Policies Across California,” (May 13, 2018), accessed August 9, 2019, https://californialanduse.org/download/Terner_California_Residential_Land_Use_Survey_Report.pdf. See also: Richard Kahlenberg, “Updating the Fair Housing Act to Make Housing More Affordable,” (2018), The Century Foundation, accessed May 28, 2019, https://tcf.org/content/report/updating-fair-housing-act-make-housing-affordable/?agreed=1&agreed=1.
31. “CEQA Judicial Outcomes: Fifteen Years of Reported California Appellate and Supreme Court Decisions,” Holland & Knight, (2015), www.jdsupra.com/legalnews/ceqa-judicial-outcomes-fifteen-years-of-82416/. This builds on Holland & Knight's 2012 report, “Analysis of Recent Challenges to Environmental Impacts Reports,” (December 2012).
32. “CEQA: The Litigation Myth,” Natural Resources Defense Council and California League of Conservation Voters, (2013), accessed July 12, 2019, www.pcl.org/media/2019/05/CEQA_Litigation_Analysis.pdf.
33. Ibid.
34. “Updating Transportation Impacts Analysis in the CEQA Guidelines: Preliminary Discussion Draft of Updates to the CEQA Guidelines Implementing Senate Bill 743 (Steinberg, 2013),” Governor’s Office of Planning and Research, (2014), accessed April 25, 2019, http://la.streetsblog.org/wp-content/uploads/sites/2/2014/08/Final_Preliminary_Discussion_Draft_of_Updates_Implementing_SB_743_080614.pdf
35. Mac Taylor, “California’s High Housing Costs: Causes and Consequences,” Legislative Analyst’s Office, (2015), accessed April 29, 2019, https://lao.ca.gov/reports/2015/finance/housing-costs/housing-costs.aspx.
36. Steven Greenhut, “Bill Would Revive California’s Redevelopment Agencies,” *CalWatchdog.com*, (2017), accessed July 13, 2019, https://calwatchdog.com/2017/09/08/bill-revive-californias-redevelopment-agencies/.
37. Casey Blount, Wendy Ip, Nakano Ikuo, and Elaine Ng, “Redevelopment Agencies in California: History, Benefits, Excesses, and Closure,” US Department of Housing and Urban Development, (2014), accessed May 30, 2019, www.huduser.gov/portal/publications/Redevelopment_WhitePaper.pdf.
38. Ibid.
39. “Enhanced Infrastructure Financing District Bill Analysis Now Available,” League of California Cities, (2014), accessed July 13, 2019, www.cacities.org/CMSPages/GetFile.aspx?nodeguid=d8e42eca-7647-4f12-98d4-e93383abc48c&lang=en-US. Note: The League of California Cities supported SB 628.
40. “Enhanced Infrastructure Financing Districts: Resource Guide to EIFD,” California Community Economic Development Association, (2016), accessed May 1, 2019, http://cceda.com/wp-content/uploads/EIFD-Resource-Guide-Feb-20161.pdf.
41. “California’s Housing Future: Challenges and Opportunities,” California Department of Housing and Community Development, (2018).

42. Lauren Taylor, "Housing and Health: An Overview of the Literature," *Health Affairs, Health Policy, Brief*, (2018), accessed May 1, 2019, www.healthaffairs.org/do/10.1377/hpb20180313.396577/full/HPB_2018_RWJF_01_W.pdf.
43. James Krieger and Donna L. Higgins, "Housing and Health: Time Again for Public Health Action," *American Journal of Public Health*, 92(5): 758–768, (May 2002), accessed July 13, 2019, www.ncbi.nlm.nih.gov/pmc/articles/PMC1447157.
44. See, for example, Ryan Van Den Nouwelant et al., "Housing Affordability, Central City Economic Productivity and the Lower Income Labour Market," (2016), https://pdfs.semanticscholar.org/4e9a/ed195834e4ba519c1acbc97cad29d238b22e.pdf; and "The Benefits of Employer-Assisted Housing," Federal Reserve Bank of Philadelphia, (2006), www.philadelphiafed.org/community-development/publications/cascade/61/06_benefits-of-employer-assisted-housing; and Joshua D. Gottlieb, "How Minimum Zoning Mandates Can Improve Housing Markets and Expand Opportunity," Aspen Institute, (2019), accessed July 14, 2019, https://assets.aspeninstitute.org/content/uploads/2019/01/3.5-Pgs.-196-225-How-Minimum-Zoning-Mandates....pdf?_ga=2.268125190.988309522.1563332800-1608706838.1563332800.
45. "In need of teacher housing, more California school districts building their own," *EdSource*, (2019), accessed August 5, 2019, https://edsource.org/2019/in-need-of-teacher-housing-more-california-school-districts-building-their-own/611220.
46. "California's Housing Future: Challenges and Opportunities," California Department of Housing and Community Development, (2018).
47. Taylor, (2018).
48. "Terner Center Research Series: The Cost of Building Housing," Terner Center for Housing Innovation, UC Berkeley, (2018), accessed May 10, 2019, https://ternercenter.berkeley.edu/construction-costs-series.
49. "The Cost of Building Housing," Terner Center, (2018).
50. "Terner Center Study: Understanding the Drivers of Rising Construction Costs in California," Terner Center for Housing Innovation, UC Berkeley, (2018), citing Jonathan Woetzel et al., "A Blueprint for Addressing the Global Affordable Housing Challenge," McKinsey Global Institute, (October 2014), accessed May 10, 2019, https://ternercenter.berkeley.edu/construction-costs#_ftn5.
51. "The Cost of Building Housing," Terner Center, (2018).
52. Sarah Mawhorter, David Garcia, and Hayley Raetz, "It All Adds Up: The Cost of Housing Development Fees in Seven California Cities," Terner Center for Housing Innovation, UC Berkeley, (2018), accessed July 15, 2019, https://ternercenter.berkeley.edu/development-fees.
53. Allison Bisbey, "In Tight Housing Market, Lenders Get Creative to Finance Garage Apartments," Asset Securitization Report, (November 16, 2018), accessed May 28, 2019, https://asreport.americanbanker.com/news/in-tight-housing-market-lenders-get-creative-to-finance-garage-apartments citing "A Tool Kit to Close California's Housing Gap: 3.5 Million Homes by 2025," McKinsey Global Institute, (2016).

54. “Inclusionary Housing Program,” New York City Department of City Planning, accessed April 29, 2019, www1.nyc.gov/site/planning/zoning/districts-tools/inclusionary-housing.page.
55. “Minneapolis 2040,” Minneapolis City Council, (2018), accessed May 10, 2019, https://minneapolis2040.com/topics/housing/.
56. David Guhin and David Gouin, “Housing Action Plan,” City of Santa Rosa, (2016), accessed June 2, 2019, https://srcity.org/535/Housing-Action-Plan.
57. Ibid.
58. “Housing Action Plan Report,” City of Santa Rosa, (2016), accessed May 10, 2019, https://srcity.org/3035/Renewal-Enterprise-District-JPA.
59. Aura Nelson, Sonali Kohli, Paige St. John, Dakota Smith, and Nina Agrawal, “Death toll from Northern California fires jumps to at least 34; 5,700 structures destroyed,” *Los Angeles Times*, (October 13, 2017), accessed July 25, 2019, www.latimes.com/local/lanow/la-me-ln-fires-20171013-story.html.
60. “Assembly Bill 32 Overview,” California Air Resources Board, accessed June 4, 2019, https://www.arb.ca.gov/cc/ab32/ab32.htm.
61. "Affordable Housing and Sustainable Communities Program,” California Department of Housing and Community Development, accessed May 10, 2019, www.hcd.ca.gov/grants-funding/active-funding/ahsc.shtml.
62. “CalReUSE Remediation Program Summary,” California State Treasurer, accessed April 25, 2019, https://www.treasurer.ca.gov/cpcfa/calreuse/remediation_summary.pdf.
63. Ibid.
64. “New Initiatives,” Oakland Community Land Trust, accessed May 10, 2019, https://oakclt.org/about/new-initiatives/.
65. “Executive Order N-06-19 Affordable Housing Development,” California Department of General Services, accessed June 5, 2019, www.dgs.ca.gov/RESD/Projects/Page-Content/Projects-List-Folder/Executive-Order-N-06-19-Affordable-Housing-Development.
66. Laura Bliss, “The Political Battle Over California’s Suburban Dream,” City Lab, (2019), accessed June 3, 2019, www.citylab.com/equity/2019/04/california-affordable-housing-bill-sb50-single-family-zoning/586519/.
67. Ibid.
68. “SB 50 Bill text,” California Legislature, Legislative Information, (2019), https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201920200SB50. See also: Shashi Hanuman and Doug Smith, “How to Ensure SB 50 Is a Bold Step, Not a Misstep,” *Urbanize Los Angeles*, (2019), accessed May 28, 2019, https://urbanize.la/post/how-ensure-sb-50-bold-step-not-misstep.
69. “The time might be right for land-value taxes,” *The Economist*, (2018), accessed May 17, 2019, www.economist.com/briefing/2018/08/09/the-time-may-be-right-for-land-value-taxes.
70. David Albouy, Gabriel Ehrlich, and Minchul Shin, *Review of Economics and Statistics*, “Metropolitan Land Values,” 100(3): 454–466, (revised July 2018), accessed July 17, 2019, http://davidalbouy.net/landvalue_index.pdf.

71. Thang-Tai Hsieh and Enrico Moretti, "Housing Constraints and Spatial Misallocation," National Bureau of Economic Research, Working Paper Series 21154, (Revised May 2017), accessed July 19, 2019, www.nber.org/papers/w21154.
72. Carlo De La Cruz and Matt Horton, "The Supply Side: Defining a Pathway for Increasing California's Housing Development Opportunities," Milken Institute, (August 2016), accessed April 29, 2019, https://www.milkeninstitute.org/sites/default/files/reports-pdf/SupplySideCAhousing-9.1.pdf.
73. "Health Plans & Benefits: ERISA," United States Department of Labor, accessed May 13, 2019, https://www.dol.gov/general/topic/health-plans/erisa.
74. Ibid.
75. "3 Initiatives to Tackle Housing Insecurity," Kaiser Permanente, (January 15, 2019), accessed July 23, 2019, https://about.kaiserpermanente.org/community-health/news/kaiser-permanente-announces-three-initiatives-to-improve-communi.
76. "Eighty Percent of Contractors Report Difficulty Finding Qualified Craft Workers to Hire as Association Calls for Measures to Rebuild Workforce," Associated General Contractors of America, (2018), accessed July 25, 2019, https://www.agc.org/sites/default/files/2018_Worker_Shortage_Survey_Analysis.pdf.
77. "Construction Workforce Plan 2017-2019," The Columbia-Willamette Workforce Collaborative, accessed June 3, 2019, https://www.clackamasworkforce.org/media/uploads/cwwc_constructionplan_r207.pdf.
78. "Ensuring a Healthy Community: The Need for Affordable Housing," Microsoft on the Issues blog and fact sheet, (January 16, 2019), accessed July 20, 2019, https://news.microsoft.com/affordable-housing/.
79. "Affordable Housing Analysis," Microsoft, (2019) Slide 7, https://news.microsoft.com/affordable-housing/.
80. "Announcing $200M impact investment to address housing crisis," Kaiser Permanente, (May 18, 2018), accessed July 21, 2019, https://about.kaiserpermanente.org/community-health/news/kaiser-permanente-announces-200-million-impact-investment-partne.
81. "3 Initiatives to Tackle Housing Insecurity," Kaiser Permanente, (2019).
82. "Housing Trust's TECH Fund Celebrates First Year Milestones," Housing Trust Silicon Valley, (April 4, 2018), accessed July 22, 2019, https://housingtrustsv.org/news/housing-trusts-tech-fund-celebrates-first-year-milestones/.
83. "TECH Fund," Housing Trust Silicon Valley, (accessed May 23, 2019), housingtrustsv.org/tech-fund/.
84. Partnership for the Bay's Future, "FAQ," accessed May 29, 2019, https://www.baysfuture.org/faq/.
85. Partnership for the Bay's Future, "Opportunity," accessed July 23, 2019, https://www.baysfuture.org/the-opportunity/.

86. Internal Revenue Service, "Opportunity Zones Frequently Asked Questions," https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions. See also National League of Cities: https://www.nlc.org/program-initiative/opportunity-zones.
87. Ca.gov, "Opportunity Zones," accessed July 27, 2019, https://opzones.ca.gov/.
88. "Technical Report: ADU Financing Issues in Unincorporated San Mateo County," Center for Community Innovation, University of California, Berkeley, (2017), accessed May 2, 2019, https://housing.smcgov.org/sites/housing.smcgov.org/files/2nd_Unit_Financing_IssuesReport.pdf.
89. "Accessory Dwelling Unit Memorandum," California Department of Housing and Community Development, (2018), accessed May 10, 2019, www.hcd.ca.gov/policy-research/docs/ADU-TA-Memorandum.pdf.
90. David Garcia, "ADU Update: Early Lessons and Impacts of California's State and Local Policy Changes," Terner Center for Housing Innovation, UC Berkeley, (2017), accessed May 16, 2019, https://ternercenter.berkeley.edu/uploads/ADU_Update_Brief_December_2017_.pdf.
91. Genesis LA, "Our Story," accessed May 23, 2019, www.genesisla.org/our-story.
92. LA-Más, "City ADU Pilot," accessed June 3, 2019, www.mas.la/adu-pilot-project.
93. Richard Sheinin, "Bank Funds 'Granny' Units Project in Affordable Housing Experiments for San Jose, LA," *San Jose Mercury News*, accessed May 10, 2019, www.mercurynews.com/2017/10/09/an-affordable-housing-experiment-for-san-jose-and-los-angeles-bank-funds-pilot-project-to-help-build-granny-units/.

MILKEN INSTITUTE