MEMO

Date: February 25, 2013
To: ABAG Administrative Committee
From: Miriam Chion, Director, Planning and Research
Subject: ABAG Legislative Priorities Around Affordable Housing

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ABAG and MTC are nearing completion of Plan Bay Area, an integrated land use and transportation plan required per California law, Senate Bill 375. With *Plan Bay Area*, the regional agencies are enhancing the linkages between land use planning and transportation investments to achieve the region's sustainability goals. A central goal of Plan Bay Area is to create enough workforce affordable housing to support forecast job growth.
To aid policy makers in setting legislative priorities around affordable housing, this memo addresses the following:

1. Why we need more affordable housing to support economic growth
2. Local/regional strategies discussed to date
3. Pending and potential legislation

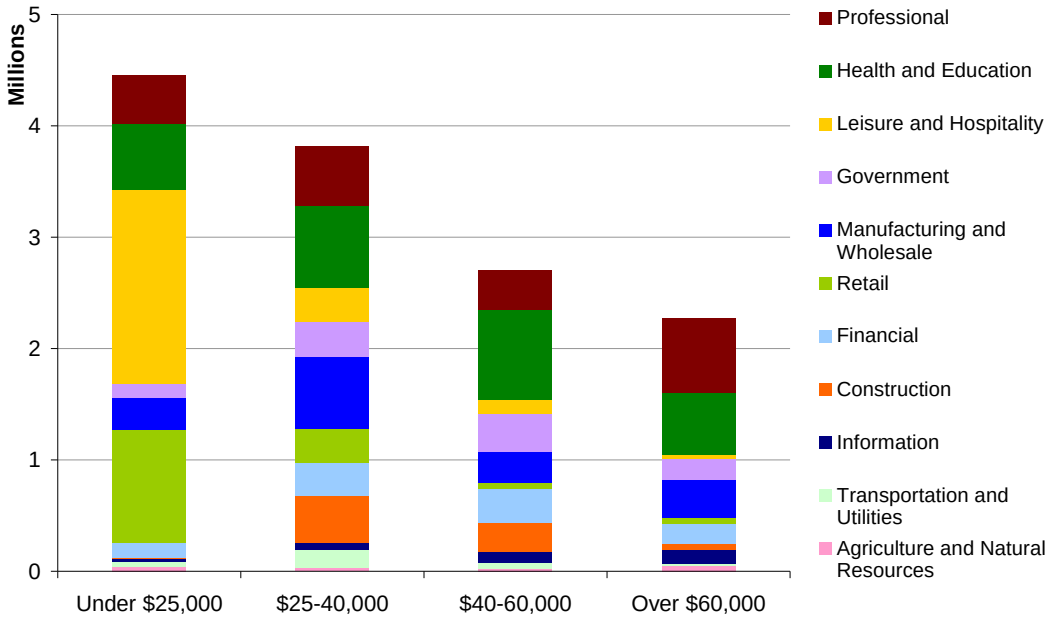
1. Why we need more affordable housing to support economic growth
The need for affordable housing in the Bay Area has been well documented. The Bay Area Council and Joint Venture Silicon Valley have both consistently identified a lack of affordable housing as a key constraint to regional economic growth.[i] Echoing extensive academic research by UC Berkeley and others, the Low Income Housing Coalition found that extremely low income households that rent represent the greatest affordable housing need.[ii] And ABAG's 2040 forecast of affordable housing need from projected job growth indicates that housing affordability could remain a serious barrier to economic growth. Absent enough affordable housing workers will be forced to commute further for jobs. This will not only increase traffic congestion and air pollution, but will impede economic growth if enough workers are not readily available to fill new jobs.
Residents of the Bay Area currently pay on average 37% of their incomes for housing, well beyond the 30% maximum amount identified by the federal Housing and Urban Development Department (HUD). But this average does not reveal the tremendous variation by occupation, wage, and location of Bay Area households, or the challenges they face in meeting their housing needs.

Household income forecast
Looking at employment growth by sector reveals that a significant proportion of jobs pay only low to moderate wages. Even the two sectors in California and the Bay Area with the highest projected growth, Professional Services and Health and Education, which have relatively high

median wages, nevertheless have significant segments of the workforce in low paying occupations.

Figure 1 illustrates the wage mix among Bay Area industrial sectors. Professional Services has the highest share of occupations that earn more than $60,000 annually, while Health and Education has the highest share that earn $40,000 - $60,000 per year. Yet both sectors show substantial numbers of jobs at all wage levels. The Construction and Manufacturing and Wholesale sectors have significant numbers of jobs in middle-income occupations, while Leisure and Hospitality (which includes hotels) and Retail have higher shares of low-income jobs.

Figure 1. 2010 California Employment Distribution by Sector and Annual Income



Source: EDD and BLS, analysis by Karen Chapple, UC Berkeley, and ABAG.

Fewer than half the jobs in Professional Services require the higher levels of education that one might assume. Close to a quarter of the jobs in Professional Services are administrative support occupations, with an estimated average annual income of $33,000. Another quarter of Professional Services occupations involve construction, maintenance, transportation, cleaning, and security.

As shown in *Table 1*, in 2010 about 40 percent, or just over 1 million, of Bay Area households were classified as very-low and low-income according to the U.S. Census. *Table 1* also shows that the number of very-low and low-income households could increase from 40 percent in 2010 to 43 percent of households by 2040.

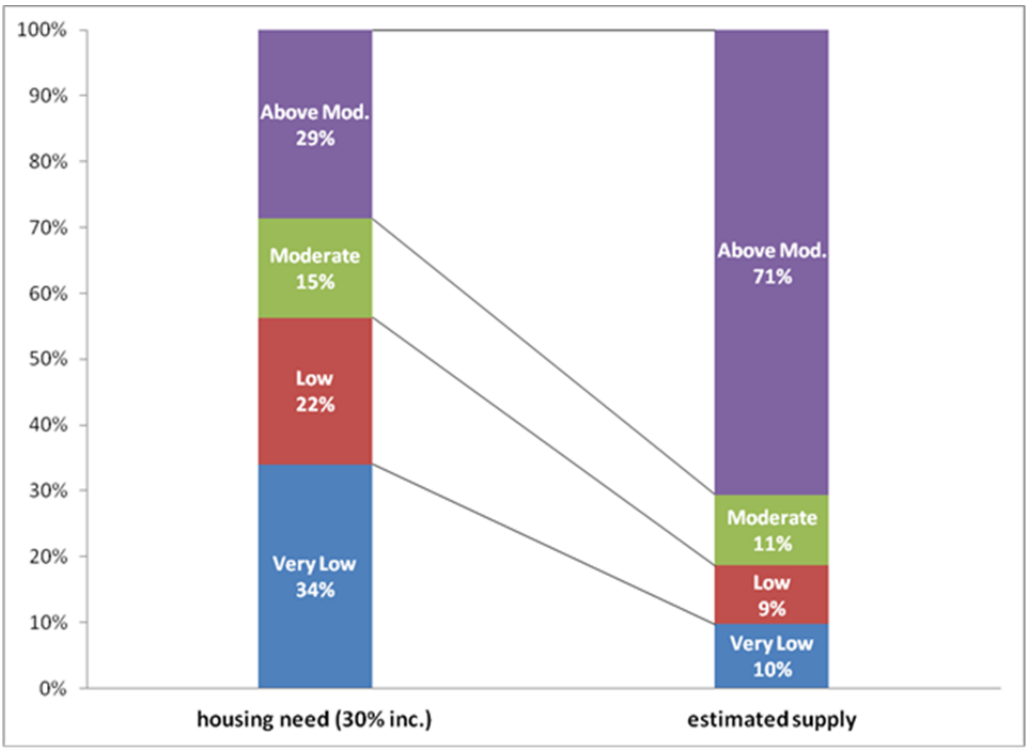
Table 1. Household Growth by Income Category, 2010-2040

Households	Very Low	Low	Moderate	Above Mod.	Total
Existing 2010	648,600	401,470	463,642	1,094,312	2,608,023
	25%	15%	18%	42%	100%
New 2010-2040	222,372	173,817	110,515	193,384	700,087
	32%	25%	16%	28%	100%
Total Households 2040	*870,972*	*575,287*	*574,156*	*1,287,695*	*3,308,110*
	26%	*17%*	*17%*	*39%*	*99% (due to rounding)*

Source: Karen Chapple and Jacob Wegmann, *Evaluating the Effects of Projected Job Growth on Housing Demand*, 2012

New housing constructed in the Bay Area is unlikely to match this housing need. Between 1999 and 2006, 71% of new housing was produced for above moderate income households. Preliminary estimates for 2007 to 2011 indicate a similar pattern. *Figure 2* shows what it would look like if 1999-2006 levels of housing production were to continue to 2040. Although the past decade was marked by tremendous market fluctuation, these trends suggest high levels of production in the above moderate category will continue into the future. If we project these trends to 2040, which assumes that a redevelopment replacement program is adopted along with an affordable housing funding measure similar to Proposition 1C**, unmet affordable housing need for very low and low income households is estimated at over 248,000 units.**

Figure 2. Housing by Income Category: 2040 need assuming 1999-2006 levels of production



By 2040 the Bay Area may produce 660,000 homes as projected by ABAG, but these homes may only be within reach of upper income households. This means that without measures that encourage more housing and subsidies for affordable housing, lower income households will seek housing through distant commutes, overcrowding, and more families living in substandard housing in areas of concentrated poverty. If *Plan Bay Area* is to achieve its goal to enhance the environment while expanding the economy in an equitable fashion, policy changes must be made.

2. Local/regional strategies discussed to date

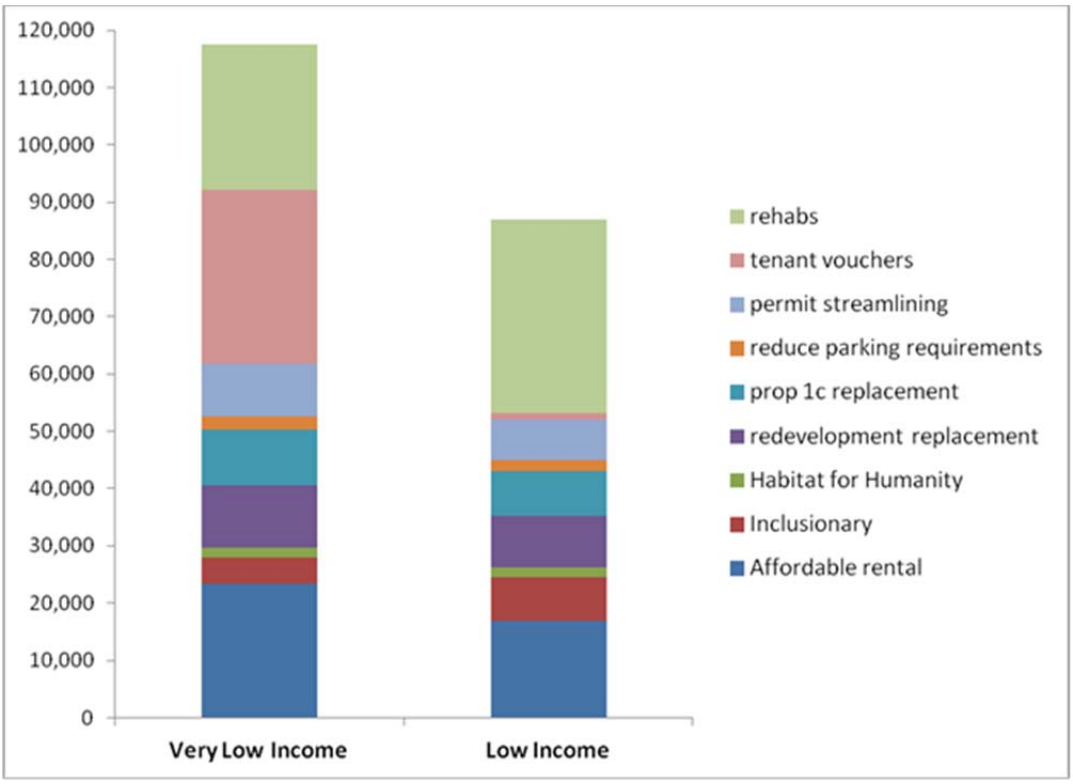
Because of these employment and wage trends, supplying enough affordable housing is expected to remain a challenge to regional growth in the future. As part of Plan Bay Area, an initial set of strategies to promote more affordable housing were discussed in the *Jobs-Housing Connection* land use strategy adopted by the joint MTC/ABAG Board in June 2012, and in the background policy report *Housing the Workforce* published October 2012. These strategies include:

- Creating a redevelopment replacement program
- Replacing Prop 1C and other sources of affordable housing funds
- Expanding the use of regional affordable housing trust funds to build new housing *and* rehabilitate and make permanently affordable the existing housing stock in neighborhoods near jobs with access to transit
- State and local regulatory reforms to support new housing production including changes to CEQA and local entitlement streamlining

As previously discussed however, households in the Bay Area currently spend an average of 37% of their income on housing, more than the 30% maximum amount suggested by HUD. Beyond constraints to housing production and acquisition, this is in part due to the strength of the Bay Area economy with its' unparalleled concentration of technology related companies, highly educated workforce, and beautiful natural environment. Because the regional economy is expected to continue this growth, albeit at a slower rate, it is unlikely that the average amount spent on housing will appreciably decline in the near future given these otherwise desirable qualities.

As shown in *Figure 3* below, if households are able to continue spending 37% of their income on housing as they do today, unmet housing need for very low and low income households **could be further reduced from 248,000 units to approximately 53,000 units.** Although young upwardly mobile households can afford to put more income into housing today because they expect higher incomes tomorrow, this would be a tremendous hardship for those with few opportunities for advancement.

Figure 3. The Bottom Line: estimated 2040 housing production for very low and low income households



3. Pending and potential legislation

What are the primary considerations for policymakers addressing affordable housing needs? First, more housing at all income levels supports overall housing affordability. Second, not providing enough affordable housing for tomorrow's workforce could compromise regional economic growth.

A number of potential initiatives are underway that could support affordable housing production including:

- SB 391 California Homes and Jobs Act (introduced February 20, 2013) puts a $75 recordation fee on real estate transactions excluding home sales. This fee could generate an estimated $500 million annually for affordable housing programs.

- A Bay Area Regional Quality of Life/Sustainable Communities Initiative has also been discussed that could go to the ballot in November 2014. This regional ballot measure would be similar in structure to Regional Measure 2 of 2004 that created a regional transit plan for the Bay Area. This measure could potentially generate funding for more affordable housing and other regional issues. The legislation is being conceived in two phases: the first bill would set up the regional authority to create a revenue and expenditure plan; the second bill would identify a specific expenditure and revenue

measure.

- Revenues from the state's new cap and trade auction are projected to reach $1-4 billion annually by 2015, representing a new and significant source of funding for affordable housing. In June, the California legislature will adopt a budget that includes the first set of investments from the cap-and-trade auction program with a portion possibly dedicated to develop and rehabilitate transit-oriented affordable housing.

For the 2013 legislative session, ABAG'S legislation and governmental organizations committee identified two overarching legislative priorities:

1. Supporting measures that reduce the voter threshold for infrastructure taxes and bonds statewide and locally; and
2. Seeking permanent funding for regional agencies and local governments to fulfill SB 375 obligations such as funding for planning, infrastructure, and services, housing element reform, and CEQA streamlining with greater entitlement efficiencies.

The following pages summarize pending state legislation that could realize these priorities and support affordable housing production and overall community development.

LEGISLATION
2013 State Legislative Session
Legislation & Governmental Organization Committee

January 17, 2013

Bill Author	Subject	Status	Recommendation	Exec. Board Position	Legislation Summary
SB 1 **Steinberg**	**Sustainable Communities Investment Authority**	**SEN Referred to Committee on Government and Finance and then to Transportation and Housing Com.**	ABAG Staff: Support	**Watch**	This bill would authorize certain public entities (a city, county, city and county, or a special district) of a Sustainable Communities Investment Area to form a Sustainable Communities Investment Authority (authority) to carry out the Community Redevelopment Law. The bill would require the authority to adopt a Sustainable Communities Investment Plan for a Sustainable Communities Investment Area and authorize the authority to include in that plan a provision for the receipt of tax increment funds provided that certain economic development and planning requirements are met. (*bill says that a "Sustainable Communities Investment Area shall include the following: 1)Transit priority project areas; 2) Areas that are small walkable communities…")* The bill would authorize the legislative body of a city or county forming an authority to dedicate any portion of its net available revenue, as defined, to the authority through its Sustainable Communities Investment Plan. The bill would establish prequalification requirements for entities that will receive more than $1,000,000 from the Sustainable Communities Investment Authority and would require the Department of Industrial Relations to monitor and enforce compliance with prevailing wage requirements for specified projects within a Sustainable Communities Investment Area. The bill would deposit moneys received by the department from developer charges related to the costs

January 17, 2013

Bill Author	Subject	Status	Recommendation	Exec. Board Position	Legislation Summary
					of monitoring and enforcement in the State Public Works Enforcement Fund. By depositing a new source of revenue in the State Public Works Enforcement Fund, a continuously appropriated special fund, the bill would make an appropriation.
SB 33 **Wolk**	**Infrastructure Financing Districts: Voter Approval—Repeal**	**SEN Committee on Government and Finance**	ABAG Staff: Support League of CA Cities: Support	**Support**	*A measure to update Infrastructure Financing District law, making it a more useful tool for helping cities maintain, repair, and rebuild critical infrastructure and create economic development:* This bill would revise and recast the provisions governing infrastructure financing districts. The bill would eliminate the requirement of voter approval for creation of the district and for bond issuance, and would authorize the legislative body to create the district subject to specified procedures. The bill would instead authorize a newly created public financing authority, consisting of 5 members, 3 of whom are members of the city council or board of supervisors that established the district, and 2 of whom are members of the public, to adopt the infrastructure financing plan, subject to approval by the legislative body, and issue bonds by majority vote of the authority by resolution. The bill would authorize a public financing authority to enter into joint powers agreements with affected taxing entities with regard to nontaxing authority or powers only. The bill would authorize a district to finance specified actions and projects, and prohibit the district from providing financial assistance to a vehicle

LEGISLATION
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					dealer or big box retailer. The bill would create a public accountability committee to review the actions of the public financing authority. This bill would specify that the date on which the district would cease to exist would not be more than 40 years from the date on which the public financing authority adopted the resolution adopting the infrastructure financing plan. The bill would also impose additional reporting requirements after the adoption of an infrastructure financing plan.
SCA 9 Corbett	**Local Government: Economic Development—Special Taxes – Voter Approval**	**SEN Introduced to Rules Com for assignment—to print.**	ABAG Staff: Support	**Watch**	This measure would provide that the imposition, extension, or increase of a special tax by a local government for the purpose of providing funding for community and economic development projects requires the approval of 55% of it voters voting on the proposition. *(resolution to propose constitutional amendment for vote by people of California)*
SCA 4 Liu	**Local Government: Transportation Projects: Special Taxes – Voter Approval**	**SEN**	ABAG Staff: Support League of CA Cities: Watch MTC: support (with possible amendment)	**Support**	This measure would provide that the imposition, extension, or increase of a special tax by a local government for the purpose of providing funding for local transportation projects requires the approval of 55% of it voter voting on the proposition. *(resolution to propose constitutional amendment for vote by people of California)*

LEGISLATION
2013 State Legislative Session
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Bill Author	Subject	Status	Recommendation	Exec. Board Position	Legislation Summary
SCA 8 **Corbett**	**Transportation Projects: Special Taxes – Voter Approval**	**SEN**	ABAG Staff: Support League of CA Cities: Watch	**Support**	This measure would provide that the imposition, extension, or increase of a special tax by a local government for the purpose of providing funding for transportation projects requires the approval of 55% of its voters voting on the proposition. *(resolution to propose constitutional amendment for vote by people of California)*

[i] Silicon Valley Index 2012, Joint Venture Silicon Valley, 2012. http://www.jointventure.org/images/stories/pdf/2012index.pdf
[ii] "Out of Reach," National Low Income Housing Coalition, 2012. http://nlihc.org/sites/default/files/oor/2012-OOR.pdf