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Endorsement: Affordable housing in California isn't going to pay for itself. Is Prop. 1 the answer?

By: Chronicle Editorial Board, Opinion Staff
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The housing debate in California often feels a bit like fighting with your rambling uncle during Thanksgiving dinner. But there's generally one island of universal agreement in a sea of rage: the need for more affordable housing.

A recent legislative analysis found that 2.2 million extremely low-income and low-income California households are competing for just 664,000 affordable rental homes. To even come close to meeting demand, the California Department of Housing and Community Development estimated the state needs at least 1 million new affordable units by 2031, including about 47,000 in San Francisco.

Building this level of subsidized affordable housing will be neither easy nor cheap — and there's lots of competition for limited funds.

In 2018, voters approved \$4 billion in bonds for affordable and veteran housing, all of which was allocated by the end of 2023. California's Multifamily Housing Program — the state's primary vehicle for providing developers with low-cost loans to build, rehabilitate and preserve affordable housing — has \$9 in requests for every dollar available, a California Budget and Policy Center analysis found.

Proposition 1, which the state Legislature placed on the November ballot with bipartisan support, would authorize California to issue \$11.25 billion in new bonds to create and preserve affordable housing and expand homeownership opportunities. Befitting the broad consensus on the state's affordability crisis, it has no formal opposition.

The measure is rigidly prescriptive in its allocation of funds.

It allocates \$7.2 billion to the Multifamily Housing Program — which the measure's author, Assembly Member Buffy Wicks, D-Oakland, described in an endorsement interview as the “workhorse” of California's efforts to develop affordable rental homes. Of that pool, \$1.15 billion would be reserved for supportive housing and services for people at risk of or exiting homelessness, with \$150 million set aside for youth who are homeless or in foster care. Another \$750 million would go to renovating and modernizing existing affordable housing.

Outside of that bucket, \$1.25 billion is earmarked for the CalVet Home Loan program, which uses the proceeds from bond sales to provide loans to veterans to purchase homes. This program doesn't cost taxpayers anything because veterans repay the cost of the bonds and interest through their loan payments. (Some Republican lawmakers accused Democrats of trying to inflate voter support for the measure by calling it the Veterans and Affordable Housing Bond when only about 10% of the overall funds go to veterans.)

Another \$600 million would go to local agencies and nonprofits — such as Habitat for Humanity — to work with would-be homeowners to build or finance affordable homes, while \$500 million would go to down-payment assistance for eligible first-time home buyers.

Among the measure's other earmarks: \$500 million for developing infrastructure — such as water and sewage lines — to support affordable housing, \$450 million to build and rehabilitate farmworker housing, \$350 million to be split evenly between the University of California and California State University systems for student housing, \$200 million to tribal housing programs and \$200 million to local grants and pilot

programs that “demonstrate innovative, cost-saving approaches to creating or preserving affordable housing.”

If this seems like a dizzying array of priorities, that’s because it is.

Prop 1 is the product of years of legislative sausage-making: It combines bits and pieces of policies proposed by lawmakers and advocates, each with a specific group or issue they’re trying to address.

So, is the measure too unwieldy — and divided among too many different groups and interests — to be effective?

Wicks told us she is “very aware of that concern” but emphasized that each of the programs receiving funding in the bond is “a proven model that we know works.”

Altogether, Prop 1 could subsidize the creation of as many as 40,000 affordable rental units, plus 2,500 for farmworkers and another 1,200 for college students, according to estimates from the nonpartisan Legislative Analyst’s Office — while helping 40,000 households, including 2,100 veterans, achieve homeownership. (A separate November ballot measure, Prop 37, would provide down-payment assistance to middle-income Californians, at no cost to taxpayers.)

This, of course, is a drop in the bucket of California’s housing needs — at a not insignificant cost. The state will need to make estimated annual payments of \$500 million to \$600 million from the general fund for 25 years to pay off the bond — 15% more expensive than an upfront payment. This will also reduce the money available for other critical programs at a time when California faces years of projected future budget deficits.

But there is good reason to believe that California will, as Wicks put it, “have a better ROI on these resources today” than in the past.

That’s because the state has in recent years significantly reduced the roadblocks that delay housing and drive up the cost of production — including by exempting all infill development from unnecessary review under the California Environmental Quality Act and streamlining dense housing near transit.

Ongoing efforts to streamline the state’s maze of affordable housing financing programs into one consolidated application, along with other reforms, could also slash development costs by \$60,000 to \$70,000 per unit.

“We’re at a great moment in time to actually have the best impact on housing that I’ve seen in my career,” Ray Pearl, executive director of the California Housing Consortium, told us.

One thing the measure doesn’t fully account for: upkeep. As the Chronicle has rigorously documented, many deed-restricted affordable homes in places like San Francisco are deteriorating. Prop 1 only sets aside a relative pittance for rehabilitation.

This is a fundamental problem with California’s focus on 100% affordable housing developments — rents don’t cover the bills, necessitating significant ongoing subsidies.

Legislators would be wise to pursue other paths, such as Washington state’s tax incentives to build affordable units inside market-rate developments, to share the burden of upkeep with the private sector.

Wicks told us California also needs to restructure its budgets to establish “sustained ongoing funding for affordable housing so that we’re not having to have this bond conversation every six years.”