The Affordable Housing Challenge

What is happening and how did we get here?

Demand for housing has risen rapidly with the recovery from the great recession. This continues a trend with strong roots in the 1990’s that was only temporarily interrupted by the recession. Supply of new housing units has failed to increase even a fraction as much as the number of new jobs and households added in our community.

Increased demand for units without a commensurate increase in supply has put pressure on prices. This chart shows median contract rent levels through
2013. Recently, the average advertised rent for a two-bedroom apartment in the county was approximately $2,600.

This supply and demand imbalance is the result of the addition of vastly more new jobs compared with new housing units. The number of housing units created over the last generation is a very small fraction of the thousands of additional jobs created and the millions of square feet of office space developed.
But who could complain about such incredible economic development? Most communities would do almost anything to attract just one of the companies that have grown so readily within our county. Unfortunately, the goose that laid the golden egg of the tech driven boom forgot to build enough nests for the hatchlings.

The next slide shows the number of local jobs held by San Mateo County residents vs. residents of surrounding counties. Unfortunately, the 2014 numbers are not available yet, but even without them, we can see that of the 39,000 jobs added between 2010 and 2013, 33,000 of them are held by workers who must commute into the county.
As rents have gone up, the percentage of incomes spent on housing has increased to unhealthy levels that negatively impact the ability of families to be able to afford other necessities. This is especially true for low-income families whose incomes have not increased and for middle-income families whose incomes have actually decreased assuming national trends are matched by performance in San Mateo County.

The most commonly used standard for “housing cost burden” is that households of average and modest means should pay no more than 30% of household income for rent. When households are paying more than 50% of household income for rent, they are regarded as “severely cost burdened”.
There are many other consequences of the growing inability of middle and low income households to rent in the county. As noted in an LA Times 1/12/15 editorial “Families facing heavy monthly housing costs may not have enough money left over for food, healthcare, transportation and other necessities. They may be forced to make trade-offs or compromises that have broader societal and economic impacts. A parent may have to work two full-time jobs to afford a decent home, leaving little time to spend with his or her children. Workers may move further away in search of cheaper housing but spend hours commuting, clogging freeways and polluting the air. People may move into converted garages or other illegal and unsafe units. Ultimately, businesses may choose to locate in regions with lower housing costs in order to attract workers.”

As a county government, we are especially concerned with families that receive safety net services from the county whether because of age, health status or income. We have worked diligently over the years to build housing subsidy programs for poor working families, the homeless, seniors and persons with disabilities among others. Unfortunately, because there is effectively a zero rental vacancy rate in the county and severe competition
for any unit that comes on the market, our clients, even when they have the rental subsidies, are unable to secure a unit.

As an example, we have always kept the maximum possible number of our county’s 4,300 vouchers in use. However, because of the competition for rental units, even families with vouchers, that would otherwise have secured housing, are unable to use their vouchers. Since the beginning of 2013, when we began to issue vouchers again after a hiatus caused by the federal budget sequestration debacle, 642 vouchers have expired because the families holding the vouchers have not been able to locate homes to rent. Our voucher program is in a crisis of declining use. We have increased subsidy levels twice since last October, but last month’s utilization level showed another decline. The same thing is happening with our other rental subsidy programs for special populations, such as the Permanent Supportive Housing Program for homeless persons with disabilities.

SHOW Section 8 utilization
This dire situation poses extremely difficult questions. For example, are we, as a society, creating additional long-term health concerns and poor outcomes for families who are living with increased stress and with less available income for anything other than housing? Will the County’s remarkable multi-million dollar investment in the Big Lift Initiative be crippled because of housing instability and unaffordability?

The creation of affordable housing requires three things: land, capital and political will. As for land, while there are many opportunities for infill development and redevelopment along our main transportation corridors and in our downtowns, we are also an older suburban county that was “built out” in the traditional sense in the 50’s, 60’s and 70’s.

As for capital, we have suffered the loss of most affordable housing funding resources over the past several years. Since the early 2000’s, state housing bond funds have been fully utilized, the federal housing budget has been cut approximately in half, and redevelopment agencies, the single most important source of funding for affordable housing and community development, were dissolved during the last state budget crisis. With the elimination of California’s redevelopment agencies, the exhaustion of state

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**Actions on Voucher Utilization**

- Increased subsidies 10/14 and 2/15
- MTW Plan amendment submitted
  - Housing locator services
  - Landlord incentives
  - Deposit assistance
- Loosened restrictions on second units
- Increasing PBA
- Increasing shared housing
housing bonds and the federal budget cuts, funding in our state for the development and preservation of affordable homes has been decreased by approximately 80% - from $1.7 billion a year to nearly nothing. Finally, by way of a privately funded source, the Palmer court decision severely hampered inclusionary building options which required that housing developers set aside a percentage of their new units at below market-rates.

As for political will, I attend many public meetings and am well aware of residents’ very legitimate concerns about traffic and parking. I have learned the hard way that while it is a fact, it may also be counter-intuitive to assert that increased density will reduce traffic. I hear people ache for the time when they moved to the county, whether it was in the 50’s or 70’s or 90’s or a few years ago. At a more fundamental level, I hear residents worried about their quality of life and I wonder if there aren’t opportunities to discuss quality of life in a way that asks “How do we have a county that accommodates all ages and income levels?” as it did in the past. How practical is it to expect a teacher or a nurse or a young business person to commute from Tracy or Stockton or Gilroy? It isn’t, but I can tell you that for every affordable housing unit created in the county, there is an equivalent car removed from rush hour on the San Mateo Bridge or Highway 101. Can we see that the lack of affordable housing is the number one threat to our economy and way of life?

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<th>Affordable Housing Units Under Construction (March 2015)</th>
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<tr>
<td><strong>Half Moon Bay</strong></td>
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<td><strong>Menlo Park</strong></td>
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In 2013 the county broke new ground by dedicating $13.4 million in one-time former Redevelopment Agency funds towards the development of new affordable housing - $10 million - and shelter repair and expansion - $3 million. The fund was named the Affordable Housing Fund, or AHF, and in
2014 your Board added an additional $5 million to the fund from the Housing Authority. The results have been fantastic. County-wide in years past, there was one or, at most, two new affordable housing complexes under construction at any one time. As we meet, there are three complexes coming out of the ground and, within several months, we reasonably expect this number to increase to seven complexes. This unprecedented activity would not have been possible without the Affordable Housing Fund. It is also worth mentioning that all of these projects have significant contributions of land and/or funding from each of the cities in which they are located.

The Department of Housing works closely with developers to prioritize county clients within the overall framework of affordable development including the disabled, clients served by the MHSA, the Health Plan and Health Department’s dual Medicare/Medical program and homeless veterans.

When the County created the Affordable Housing Fund, it was with the understanding that the County commitments were of an interim nature while federal and state programs were reformulated to once again fund affordable housing development. I would like to update you with developments on the federal and state fronts.

Federal – not much in the foreseeable future, but the National Housing Trust Fund has finally started and there are efforts to improve the calculation of the LIHTC program in ways that produce additional amounts for new developments.
Federal Funding Outlook

- CDBG and HOME Programs - continuing cuts
- National Housing Trust Fund - starting small
- Low Income Housing Tax Program improvements could produce a modest boost

State – is more hopeful . . .

State Funding Outlook

Enacted

1) $600 million Veterans Bond reallocation
2) $120 million (ongoing) slice of Cap and Trade revenue for housing-related greenhouse gas reduction
3) $47.5 million (one-time) State Multifamily Program for Special Needs Population
As we turn to the white paper, I want to acknowledge that I have referred constantly to affordable housing. This is because of the county’s safety net responsibilities and the Department of Housing’s mission. For all of us, the care of our county’s clients and state mandates for care of the indigent come first.

However, I would like to leave this introduction with gratitude to the Board for making housing a top priority and to acknowledge that this means increasing the supply of both market-rate and subsidized units, for rent and for sale. It means making it easier to build housing, but also requiring developers to set aside units for low-income residents in exchange for permission to build bigger, taller projects. It means preserving the number of affordable apartments by adopting a “no net loss” policy that ensures subsidized units don’t disappear when buildings are demolished and replaced. And now . . . on to the White Paper.