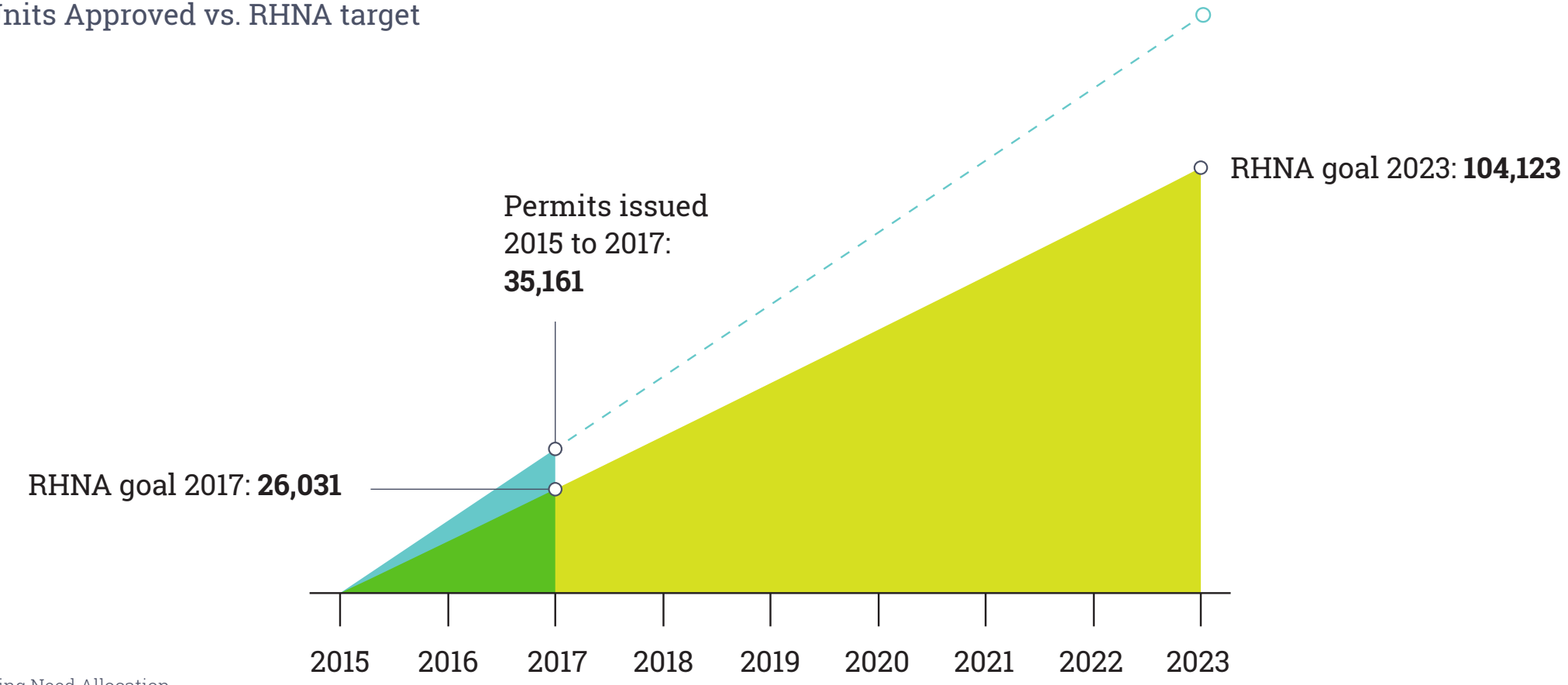
Three Bay Area Counties Face an Unusual Housing Challenge

San Francisco, San Mateo, and Santa Clara are at the epicenter of the housing affordability crisis. They have state-mandated housing targets, but while they are some of California's wealthiest counties they keep little of their own tax dollars and haven't the funds to subsidize housing, nor are they allowed to raise funds for that effort.

- **How We Got Here** and how cities have responded
- **The Systemic Challenge** of coupling two systems (one fast and cyclical and the other slow and steady)
- **The Economic Challenge** for cities
- **The Social Challenge** for the region
- **Affordability is Key** and requires subsidy and effective transit investment from the State and Big Tech

The California Department of Housing and Community Development (HCD) established statewide housing needs with regional targets (RHNA)* for 2014–2023. Local bodies like ABAG*** then took those regional targets and set goals for their counties and cities. Based on the housing construction that has been approved, the three counties are on track to exceed the state's regional housin goals under RHNA.**

Housing Units Approved vs. RHNA target



* Regional Housing Need Allocation

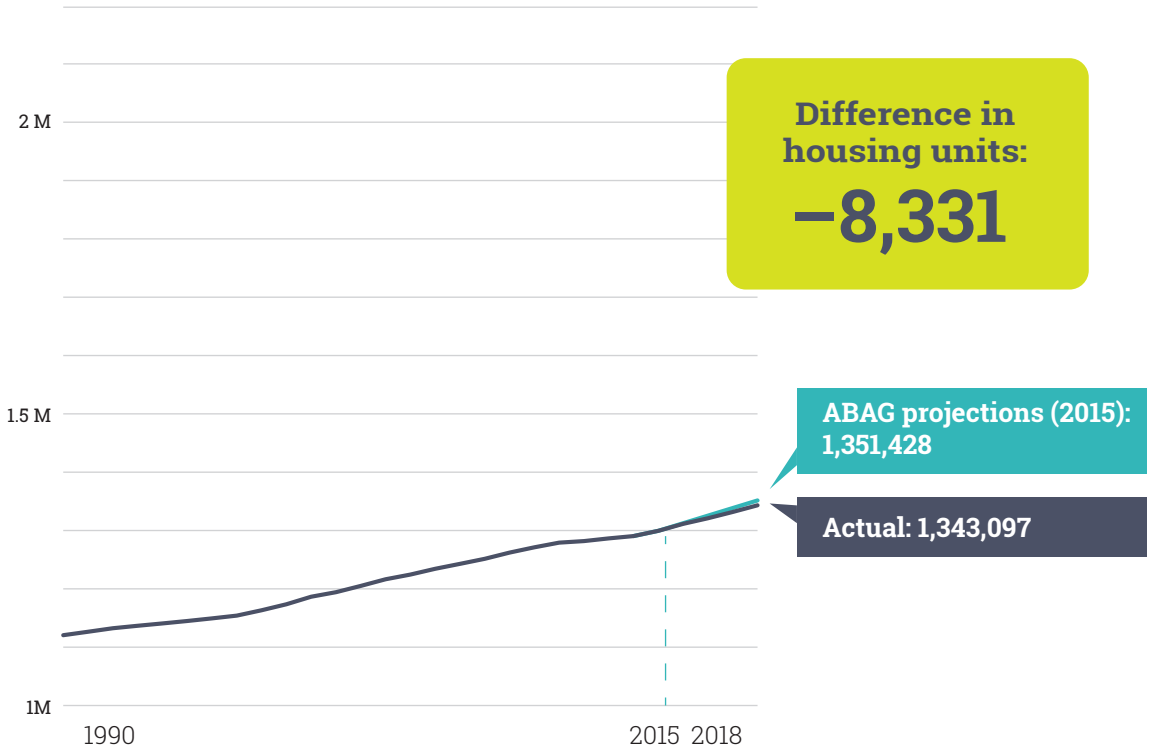
** HCD's 5th cycle of the Housing Element projections cover Jan 2014 to October 2022

** Association of Bay Area Governments (ABAG):

Source: Association of Bay Area Governments: Housing Permit Activity 2015 to 2017

Most of that housing is still in the pipeline. The process from final sign-off of all city development approvals to completed construction often takes years, due to factors outside a city's purvies e.g project financing. However, while "constructed" housing units have slightly lagged expectations, jobs have GROSSLY exceeded ABAG expecta-

Housing units 1990 to 2018

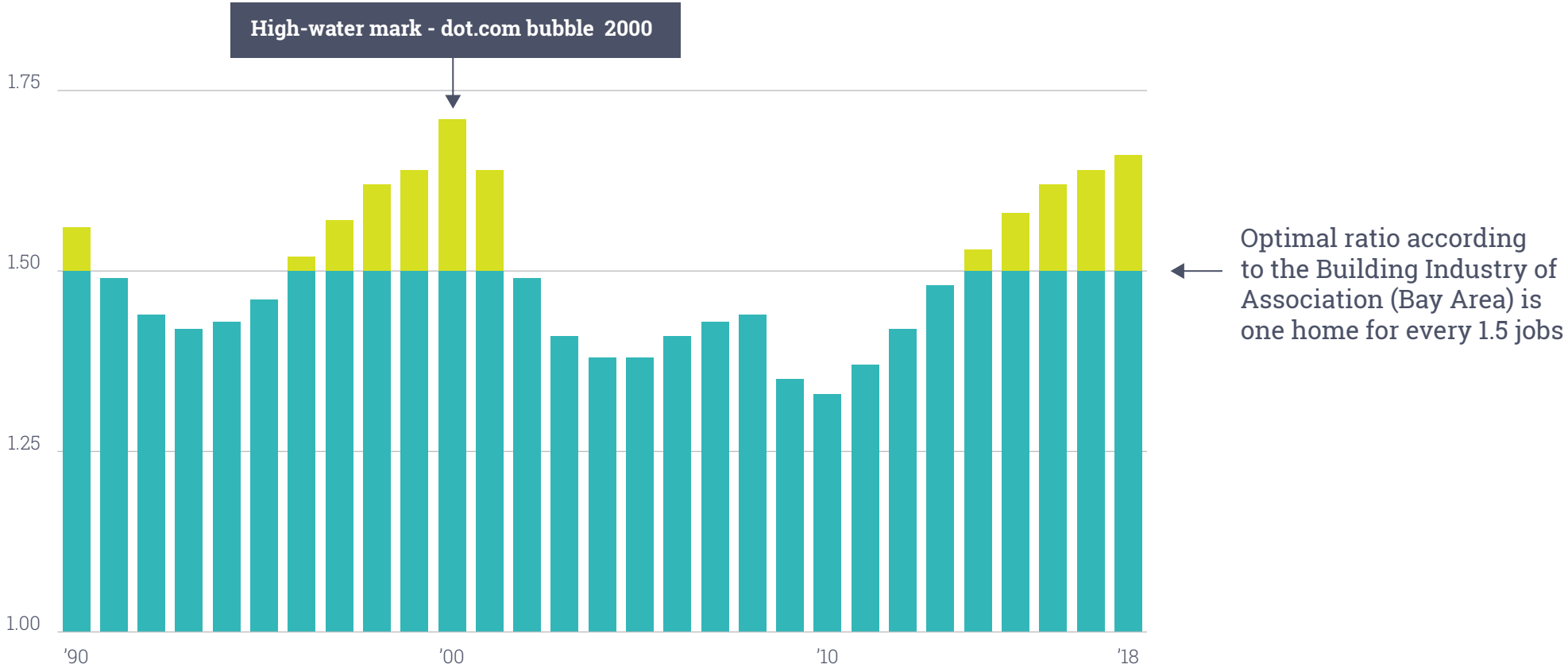


Jobs 1990 to 2018

Source: California Dept of Finance, Housing Tables E5 (2010 to 2018) and E8 (1990 to 2010); Bureau of Labor Statistics QCEW (1990 to 2018); Plan Bay Area "Jobs-Housing Connection Strategy" Appendices

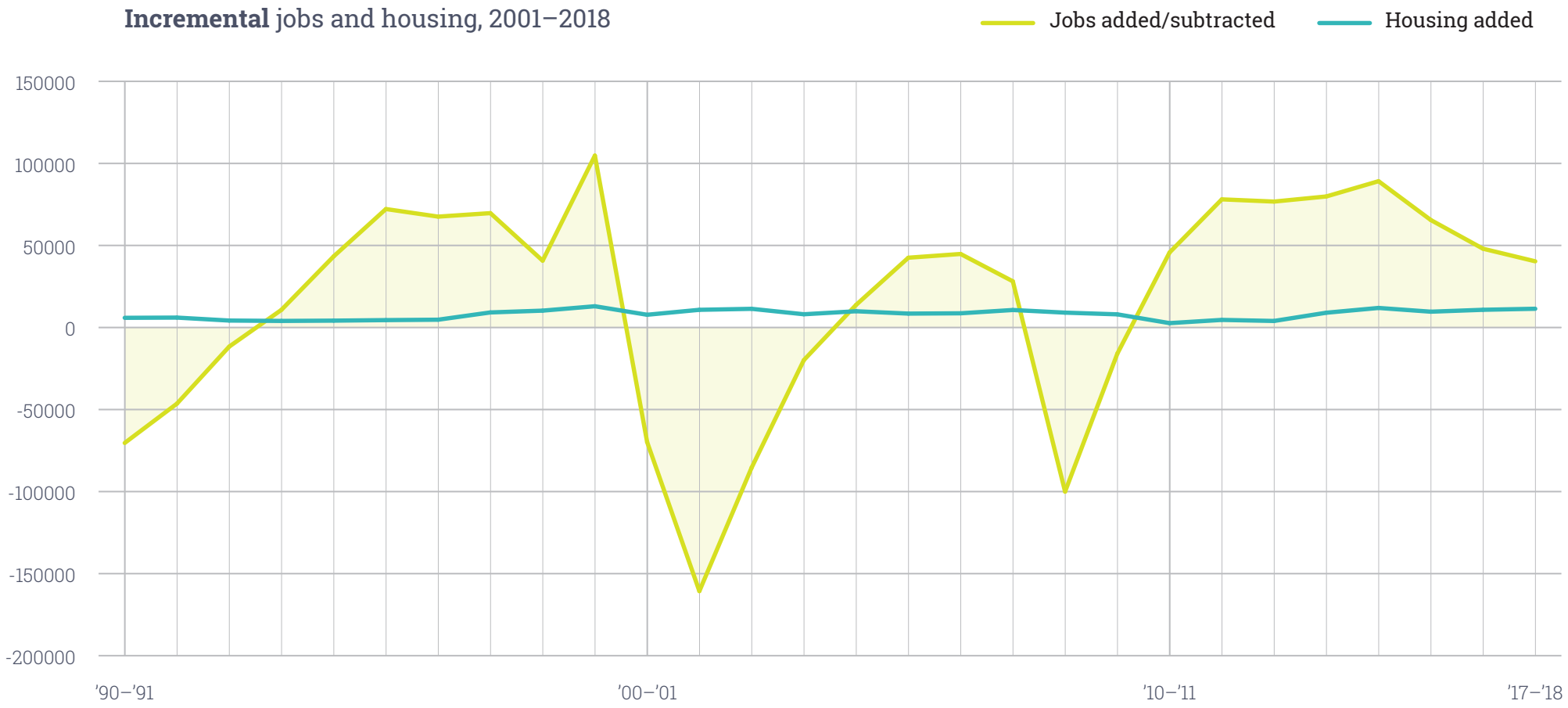
The Building Industry Association claims the optimal ratio of jobs to housing is 1.5 : 1. Most of the last three decades we've been below that 'golden ratio.' We're above it now, but we've been worse. This is not a new phenomenon. It's a cycle.

Jobs-housing ratio — three counties, 1990–2018



Source: California Dept. of Finance, Housing (1990 to 2018); BLS QCEW (1990 to 2018); Building Industry Association - BIA Bay Area Flyer (August 2017)

The reality is that housing production is a slow steady operation with a multi-year time horizon, while jobs follow market cycles, with sharp ups and downs.



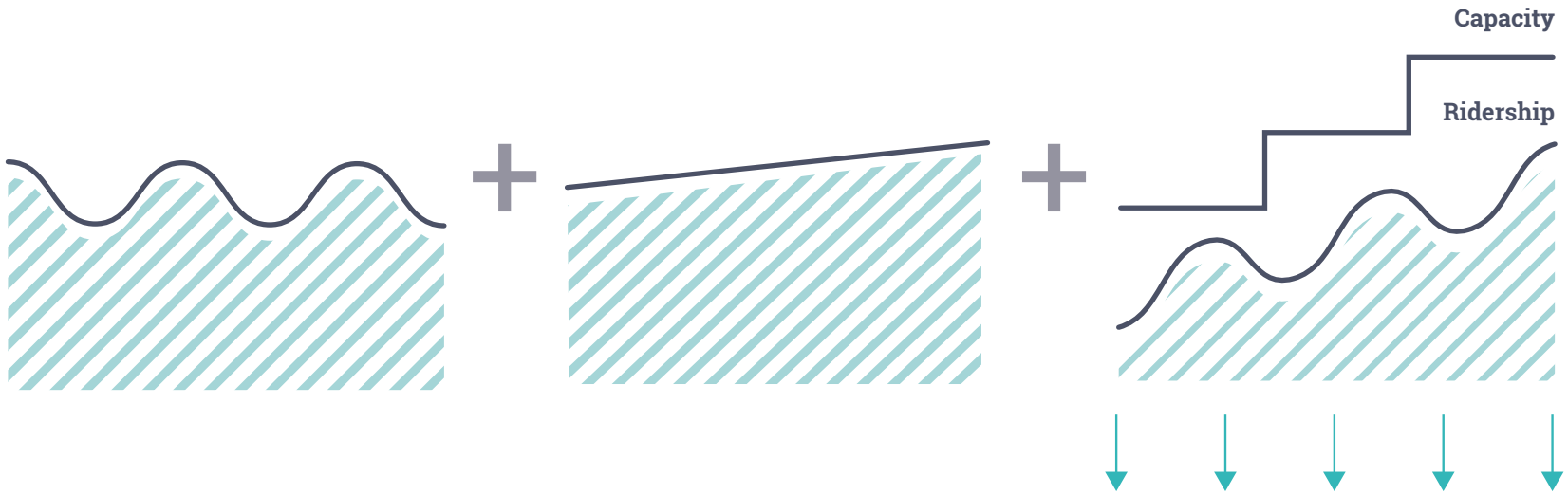
Source: California Dept of Finance, Housing (1990 to 2018); BLS QCEW (1990 to 2018)

Transit is typically the valve that allows a region to cope with fluctuating market cycles. The optimal job to housing ratio (1.5 : 1) is impossible to maintain when a cyclical system is coupled to one that is steady-state.

Timeframe to add: months
Jobs

Timeframe to add: 3 to 5 years
Housing

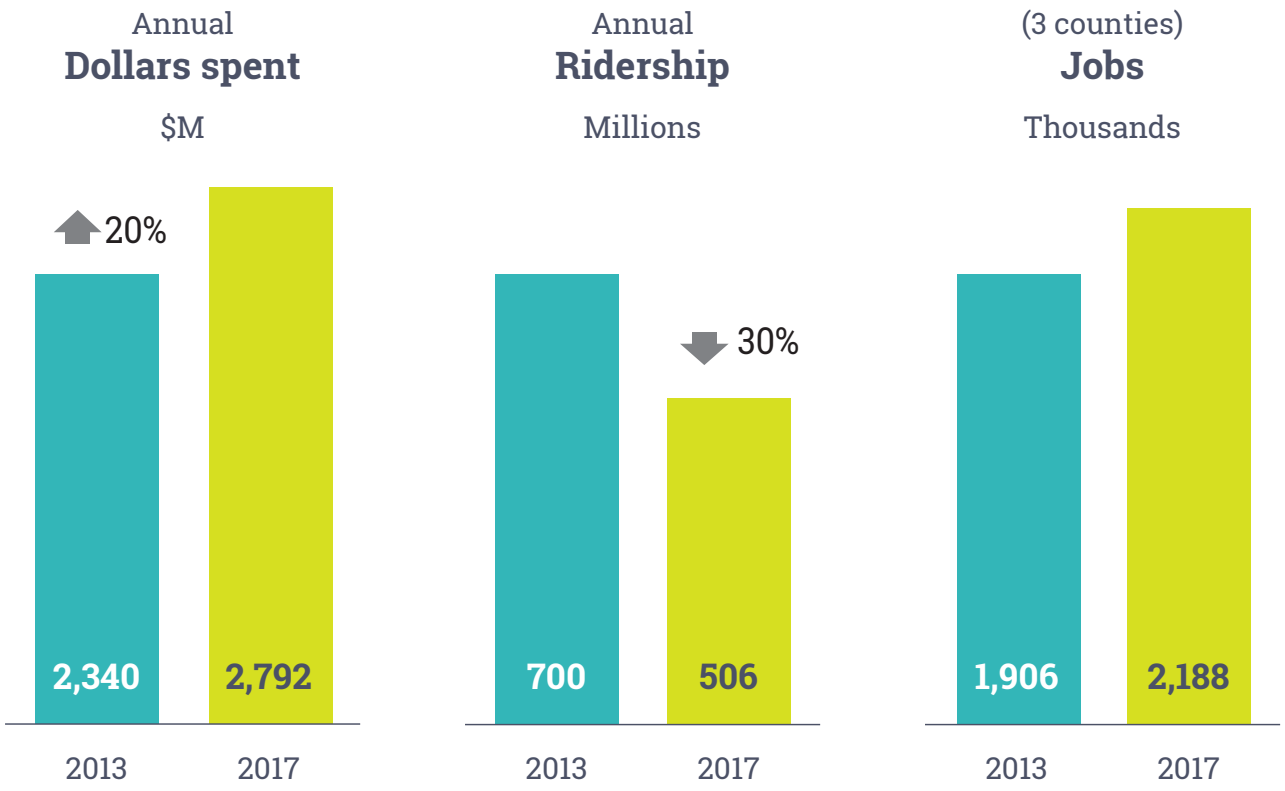
Timeframe to add: 10 to 20 years
Transportation



= **Economic growth**

Transit creates access for workers who live further from job centers and are typically lower-paid. Transit helps manage the cyclical job-housing imbalance and prevents reactive responses to market extremes.

Unfortunately, California as a state has failed to effectively invest in transit. A multi-level, multi-agency bureacracy has created an expensive, sub-optimal Bay Area transit system. In the last 5 years transit agency expenses in the Bay Area have gone up 20% while ridership has gone down 30%. This, despite the addition of 280,000 jobs in the same period.



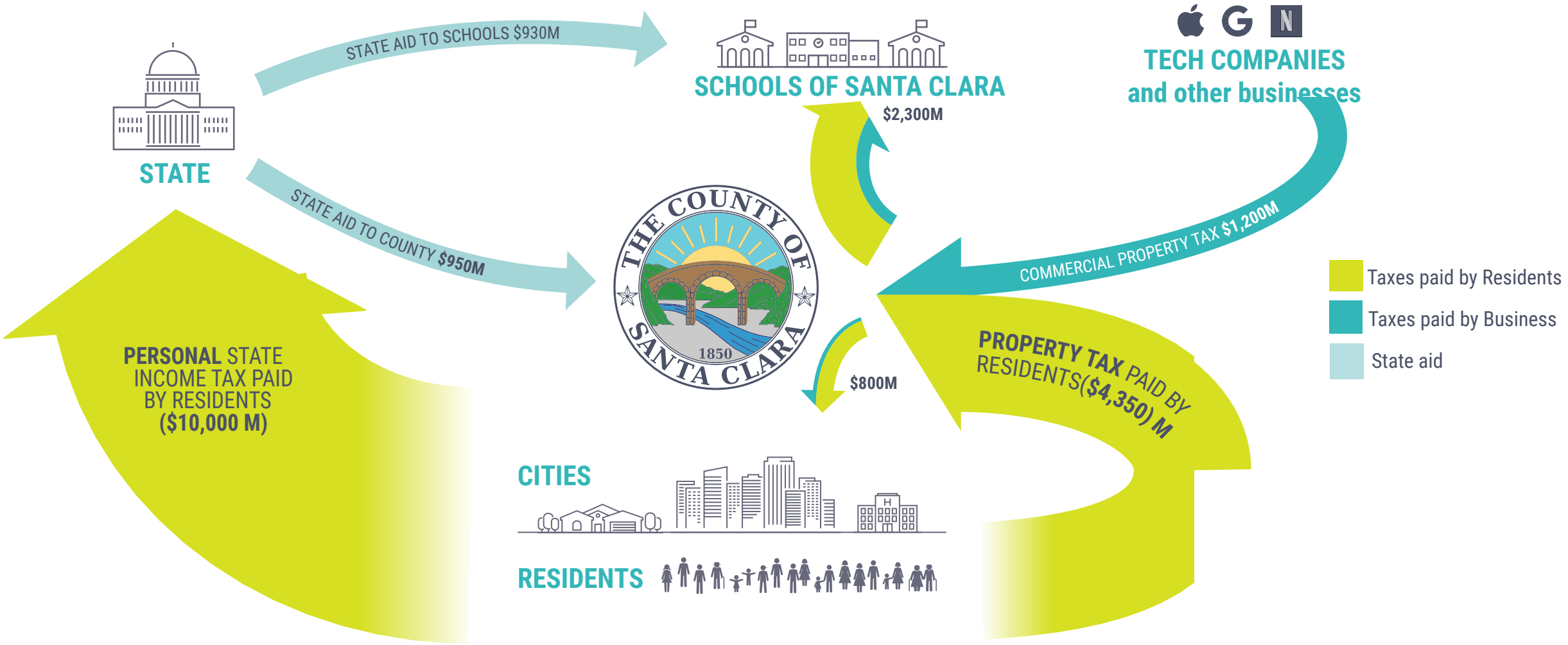
Top 14 Bay Area Transit Agencies

- Bart
- AC Transit, Dumbarton Express
- VTA
- Caltrain
- SamTrans
- Golden Gate Transit
- County Connection
- TriDelta Transit
- SolTrans
- Wheels
- WesCAT
- ACE
- SF Muni
- SF Bay Ferry

Source: Federal Transit Administration, Transit Agency Profiles Region 9 (2013 to 2017), Annual Unlinked Trips, and Operating Expenses

The burden of coping with the recurring tension between longtime, steady housing growth and unpredictable sharp swings in job growth has been left to local government. However, the state has all the money. Local governments are starved for resources. Only 6% of locally generated taxes come back to the 14 cities of Santa Clara County.

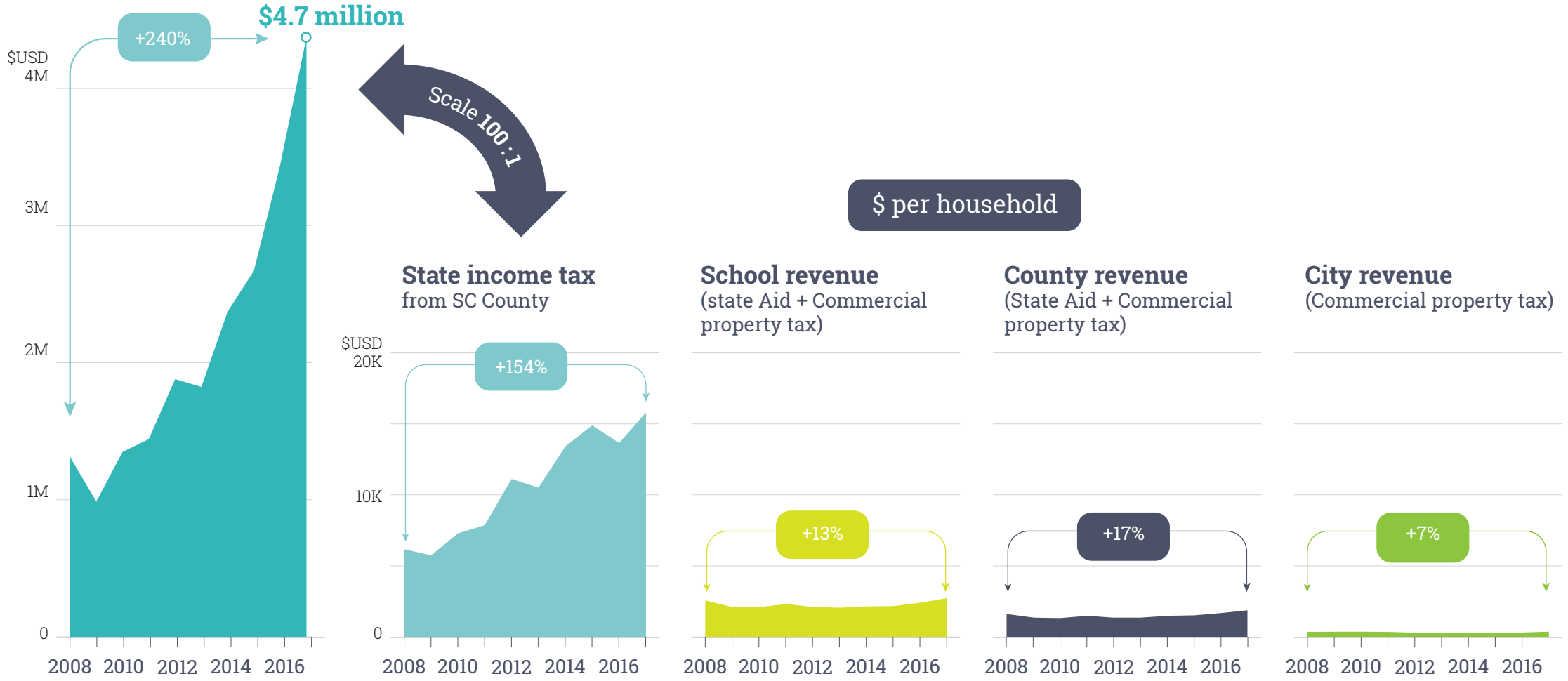
The Economic Challenge



Sources: California Franchise Tax Board Annual Reports; CAFRs (Cities in SCC); County of Santa Clara Finance Agency Annual Reports; SCC County Assessor Annual Reports; County of Santa Clara Annual Budgets; California Dept of Education School District Budgets; NASDAQ.

While funding to local agencies has remained flat for the past decade Big Tech and the state government have benefitted tremendously from the economic growth in our region.

Market cap per household, Santa Clara top 25 tech companies

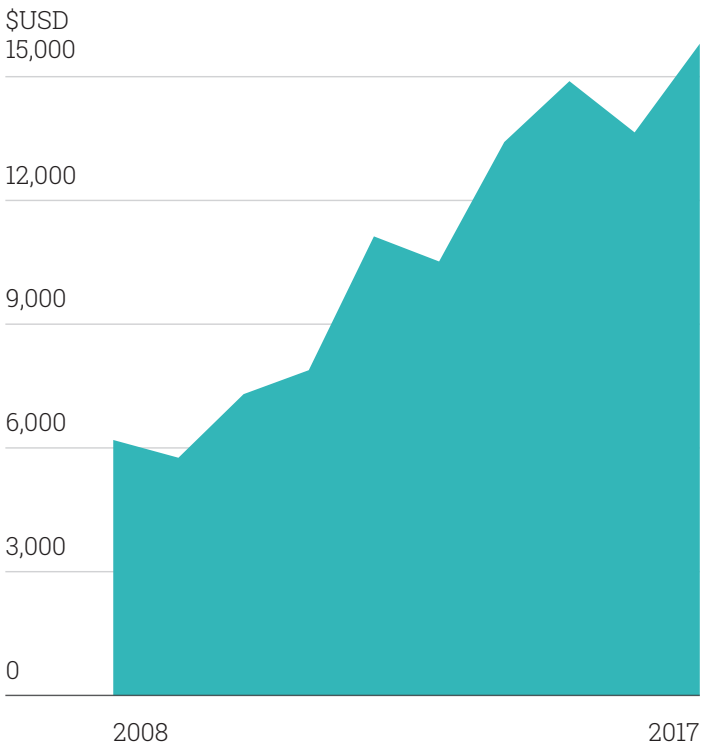


Sources: CA Franchise Tax Board Annual Reports; CAFRs (Cities in SCC); SCC Finance Agency Annual Reports; SCC County Assessor Annual Reports; SCC Annual Budgets; CA Dept of Education School District Budgets; NASDAQ.

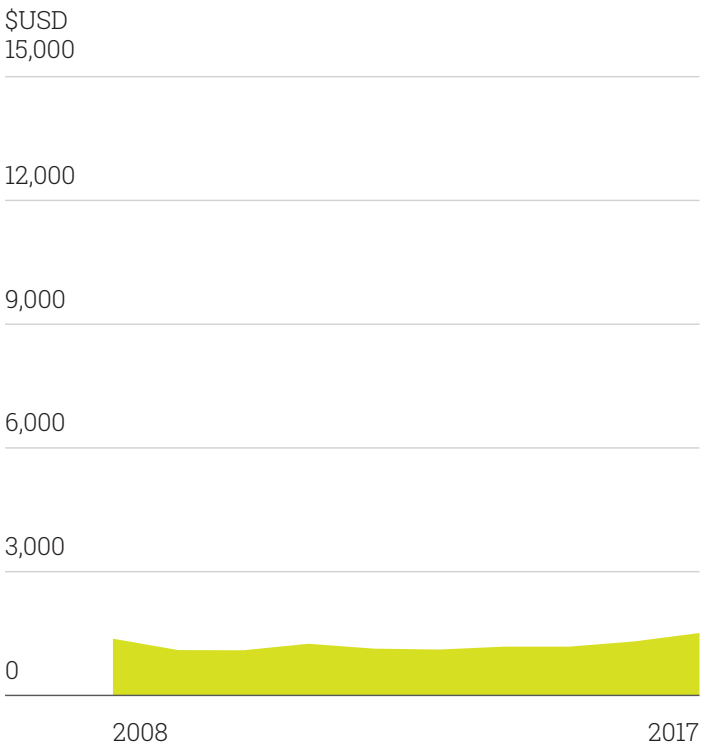
Yet state aid to needier counties has also not increased during this period, raising the question, what is the state spending the increased revenue on?

$ per household

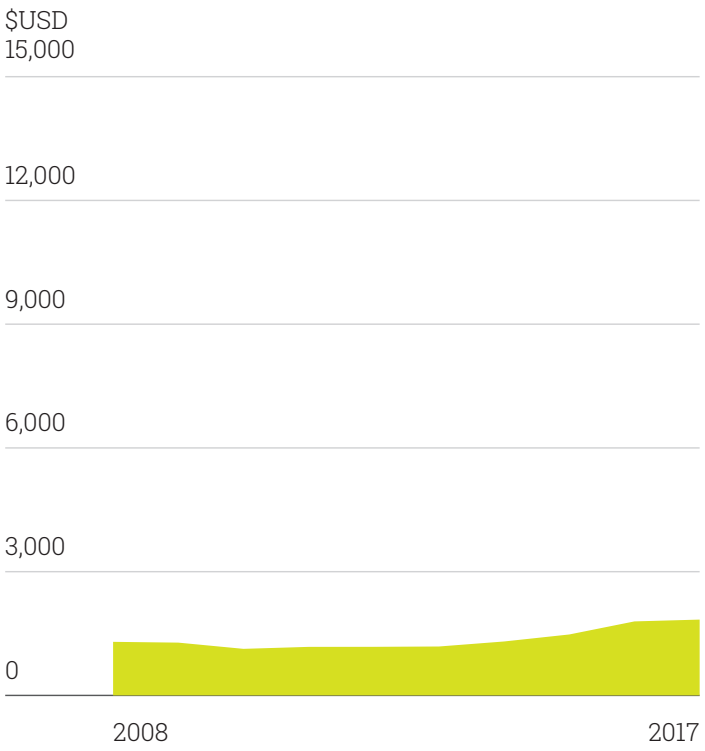
Income Tax — Santa Clara County



State aid — Santa Clara County



State aid — Fresno County



Sources: CA Franchise Tax Board Annual Reports; Santa Clara County Annual Budgets; Fresno County Annual Budgets

Even though cities and counties are starved for resources, the state has still charged them with providing the services and building the infrastructure to support growth.

The Economic Challenge

Santa Clara Tech

2017 Market Capitalization of 25 Largest Companies Headquartered in Santa Clara County:
$USD 3,000 Billion ($US 3 Trillion)

Adobe Systems | Advanced Microdevices | Apple
Alphabet | Applied Materials | Cisco | eBay | Flex
Juniper Networks | Intel | Intuit | Intuitive Surgical
KLA-Tencor | Hewlett Packard Enterprise | HP
LinkedIn | Netapp | Netflix | NVidia | PayPal
Synopsys | Symantec | Varian Medical Systems
VMWare | Yahoo

Revenues (2017)

State

Income Tax paid in Santa Clara County:
$ 10 Billion

Schools

44% Property Taxes: **$2.4 Billion**

State Aid: **$0.93 Billion**

County

12% Property Taxes: **$1.1 Billion**

State Aid: **$ 0.95 Billion**

Cities (14 total)

9% Property Taxes: **$ 0.8 Billion**

Services

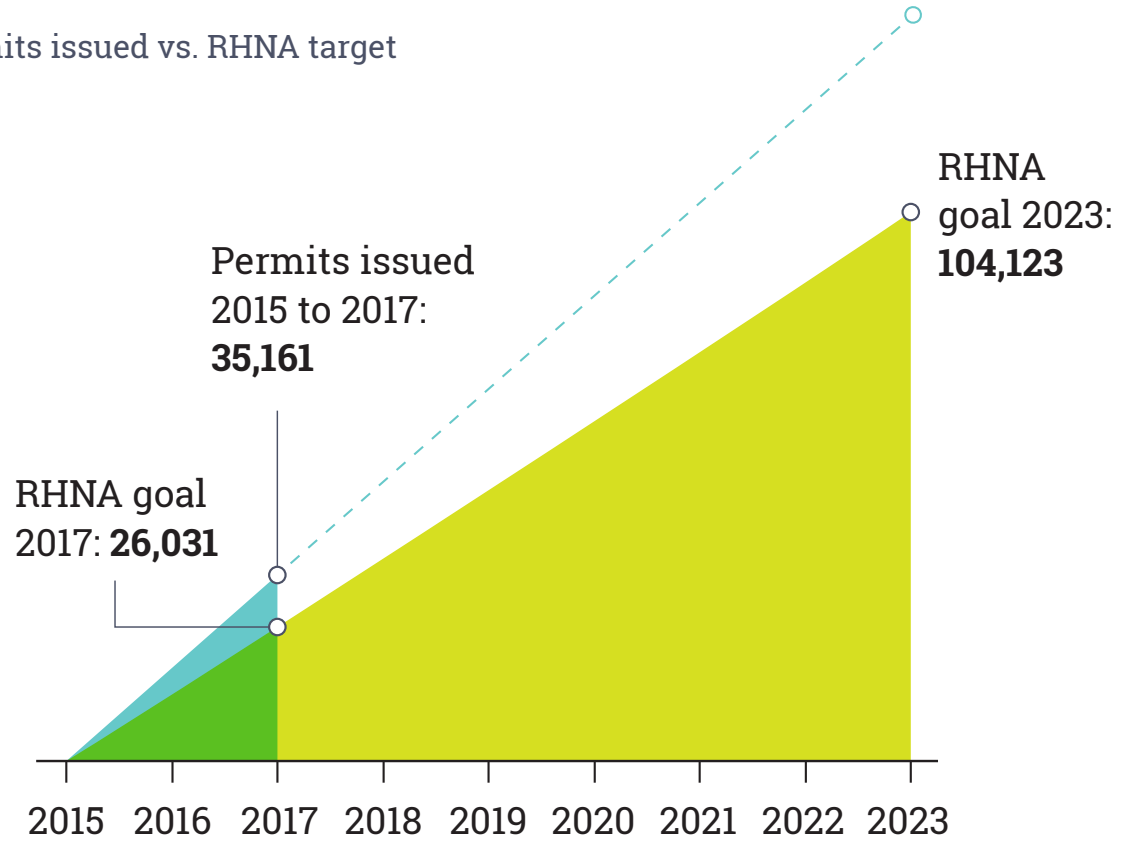
provided by local agencies

- Public safety (Police + Fire)
- Public ways and facilities: roads, airport, bridges
- Health + Sanitation: hospital, child welfare, mental health
- Utilities
- Public Works
- Building and planning approvals
- Community Service
- Elections
- K-12 education

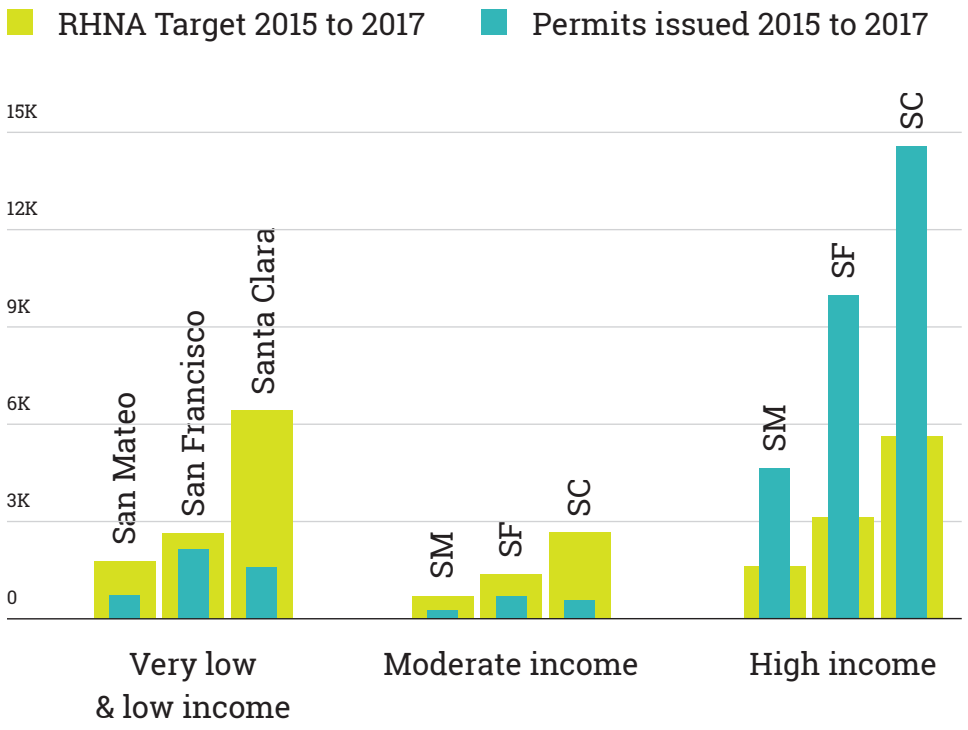
Sources: CA Franchise Tax Board Annual Reports; CAFRs (Cities in SCC); SCC Finance Agency Annual Reports; SCC County Assessor Annual Reports; SCC Annual Budgets; CA Dept of Education School District Budgets; NASDAQ.

It is no surprise then, that while counties are approving housing units at a rate consistent with their OVERALL housing goals* they are falling short on their low-income housing allocations. Affordable housing requires subsidy and local governments don't have the funding to pay for it. They can only incentivize the construction of affordable housing. In the end, the market decides what gets built. And what is being built is market-rate housing.

Permits issued vs. RHNA target



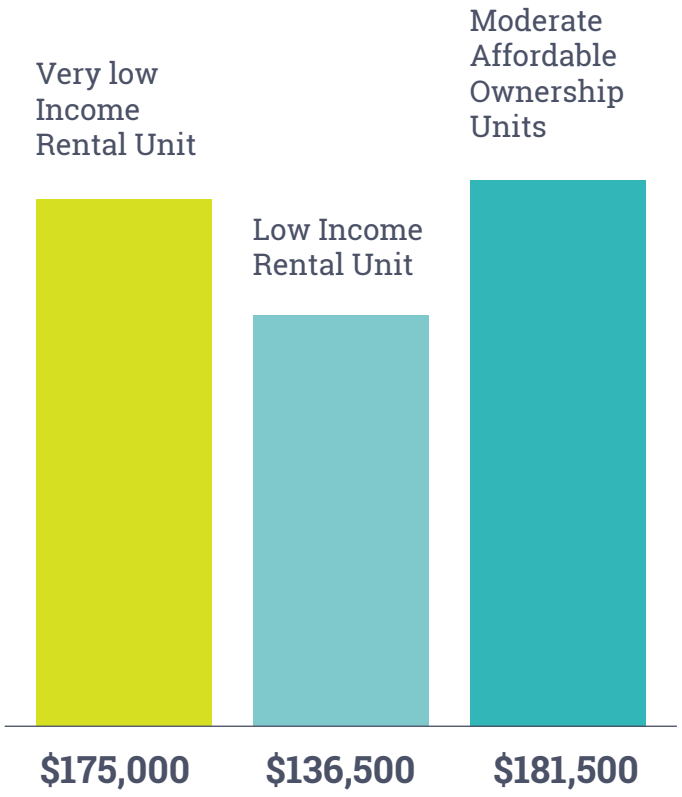
Very low and low/moderate/high income permits versus target



* Housing goals set by ABAG based on regional targets set by the Califronia Department of Housing and Community Development.
Source: Association of Bay Area Governments: Housing Permit Activity (2015 to 2017)

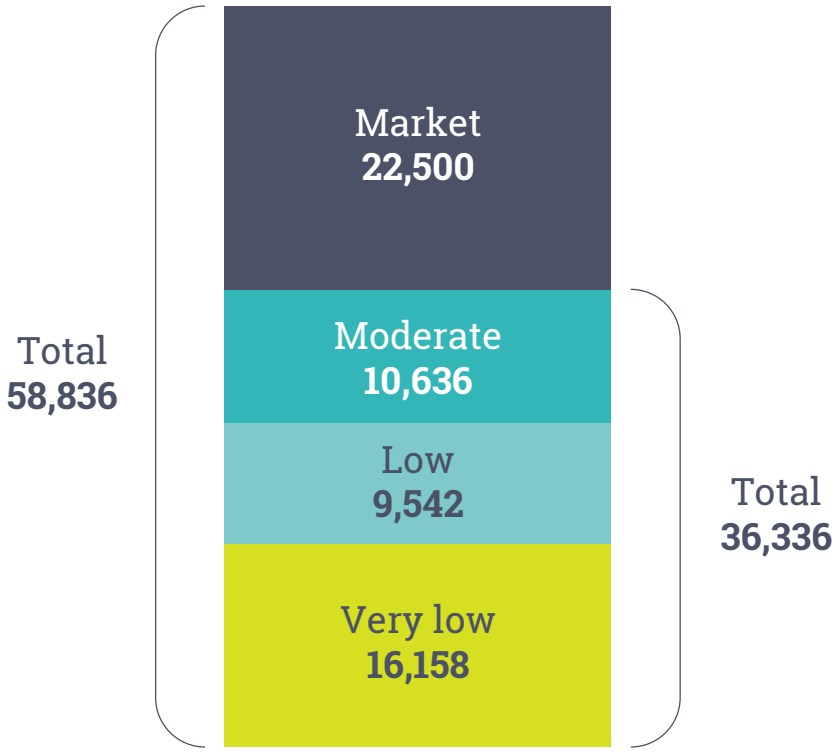
To understand the scale of the problem Santa Clara County's NEXUS study clarified exactly how expensive it is to build affordable housing in this region. Santa Clara's RHNA goal for 2023 is 36,000 affordable housing units, a number that would require more than $8 billion of subsidy.

Nexus Study Affordability Gap Per Unit



RHNA 2015 to 2023—three counties

Number of Housing Units



The county and cities do not have the resources to subsidize housing at this level. Only the State has the resources needed to build at this scale.

Tech philanthropy with its promised $500 million would enable less than 7% of the affordable housing needed in Santa Clara County.

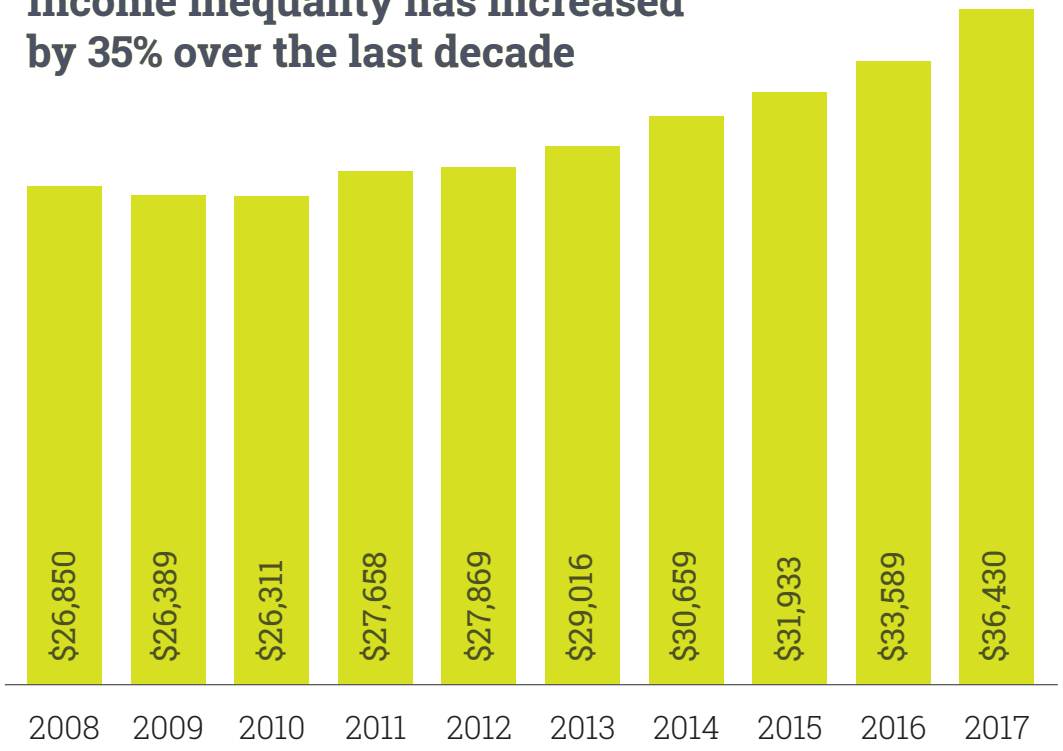
And that's only one of NINE Bay Area counties. $500 million is a drop in the bucket as far as affordable housing is concerned.

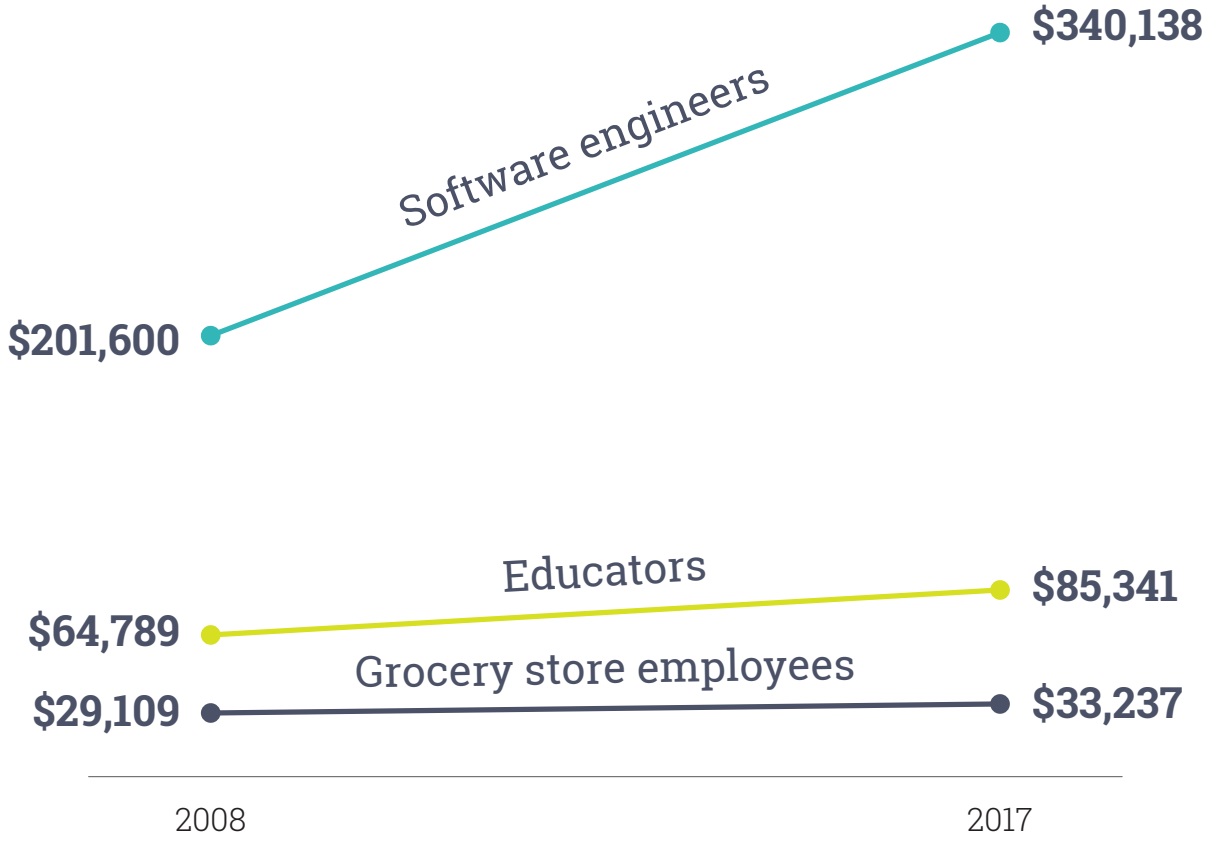
* Affordability gap = difference between the cost of developing the affordable unit and the unit value based on the restricted affordable rent or sales price. **Very Low**—50% or less of Area Median Income; **Low**— 51-80% AMI; **Moderate** 81–120%AMI. Sources: Santa Clara County Nexus Study, prepared by Keyser Martson Associates (April 2018), Association of Bay Area Governments: Housing Permit Activity 2015 to 2017

Santa Clara County's challenge is not simply to stimulate housing but to build enough affordable housing to keep pace with the growing socio-economic divide. Tech salaries are increasing far faster than other salaries in the area, driving housing prices to a level that is unaffordable for those whose wages have stagnated. No amount of market-rate construction will close the gap.
Analogy: Producing more BMWs won't reduce the demand for Corollas.

Income Spread (mean–median income) 2008 to 2017

Income inequality has increased by 35% over the last decade





Source: Bureau of Labor Statistics QCEW 2008 to 2017; American Community Survey 2008-2012, 2013 to 20172

Affordability is key and requires subsidy. The State and big Tech must do more.

The issues faced by the region have been largely driven by the State's failure to reinvest tax dollars in effective public transportation and affordable housing. Growth in the Tech sector has yielded more income tax for the State, but Tech salaries have simultaneously exacerbated income inequality in the region. The State should direct some of the additional tax dollars toward ameliorating economic displacement. And Big Tech must do more to reinvest locally for the long term sustainability of communities. Local cities are constrained by a lack of funding and are restricted from raising funds specifically for affordable housing. As such they are left with inclusionary zoning as one of the few tools available to them to stimulate affordable housing. They cannot do the heavy lift alone.

- **The State needs to do a better job of forecasting growth and managing it.** Companies in the Bay Area need to be part of the job forecasting effort, and the State needs to incentivize job growth in locales that benefit a broad range of communities, else the concentration of high tech jobs and associated salaries will continue to exacerbate economic displacement.
- **The State should focus on affordable housing** for the region. Market rate housing does not need additional incentive. It has incentive enough through the tax code. It is affordable housing that requires stimulus, and all efforts should be directed to that effort. The solution for affordable housing is not to simply give cities housing quotas, but to also provide the funding to help them build it. Since the State has most of the resources it is reasonable to expect them to help in this effort. If not, cities need the ability to raise their own funds for affordable housing.
- **The State should increase housing utilization** by creating disincentives for housing units to remain unoccupied. A speculation tax should be introduced to discourage the 'parking' of housing as an investment strategy. A database to track rental housing units would also create greater accountability.
- **The State should consolidate the transit agencies** and make any remaining agency accountable for performance and efficiency. Funding should be based on performance. More passenger miles = more funding.
- **The State should do more to support renters** through rent tax credits and eviction protections.
- **Cities need to introduce a business tax** for companies over a certain size to ensure corporations pay their share of infrastructure costs, thus maximizing the dollars available for affordable housing in the community.

The following housing bills may address some of the issues highlighted

- **SCA1: Author — Senator Allen**

  SCA1 recommends an initiative for the November 2020 ballot that repeals Article 34 of the Constitution. Article 34 bars local governments from expending funds to develop or subsidize the development of low income affordable housing. Striking this article will restore the ability of local governments to build shelters, supportive communities and affordable housing.

- **SB6: Author — Senator Beall**

  SB6 seeks to create a registry and database to identify all publicly owned land available and suitable for residential development, to be updated annually. SB6 also expressly provides for public access and transparency, creating the capability to perform online searches for sites suitable for affordable housing projects **(1)**

- **SB18: Author — Senator Skinner**

  SB18 removes the expiration date (currently 12/31/19) **(2)** on a law that ensures tenants are able to stay post-foreclosure by a lender until the later of a) the end of their lease term, or b) 90 days after an eviction notice from the foreclosing lender.

- **SB248: Author — Senator Glazer**

  SB248 increases renter's tax credit for spouses or heads of households from the current $120 to a maximum of $434 if the renter has one or more dependents; and for individuals from the current $60 to a maximum of $434 if the renter has one or more dependents.**(3)**

- **SB521: Author Senator Portantino**

  SB521 amends the tax code to provide a landlord with a tax credit equal to 3% of rent payments from a tenant receiving government assistance for housing (such as federal section 8 voucher from HUD)**(4)**.

1. Gov Code 11011.8(a) 2. Code of CivPro 1161b(f) 3. Rev&Tax Code 17053.5 4. Rev & Tax Code 17053.80