

**AGENDA
SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION**

ASSEMBLYMEMBER GEORGE NAKANO, CHAIR

**TUESDAY, FEBRUARY 16, 1999
STATE CAPITOL, ROOM 447
1:30 P.M.**

**OVERVIEW HEARING
ON
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT,
STATE AND CONSUMER SERVICES AGENCY,
AND TRADE AND COMMERCE AGENCY**

OPENING REMARKS

**Chairman George Nakano
Committee Members**

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
(BACKGROUND MATERIAL ATTACHED)**

**Judy Nevis, Interim Director
Michael Cohen, Legislative Analyst's Office**

STATE AND CONSUMER SERVICES AGENCY

**Aileen Adams, Secretary of State and Consumer Services
Jerry Beavers, Legislative Analyst's Office**

**TRADE AND COMMERCE AGENCY
(BACKGROUND MATERIAL ATTACHED)**

**Lon Hatamiya, Secretary of Trade and Commerce
Jerry Beavers, Legislative Analyst's Office**

***Public Comments are invited but should be limited to three (3) minutes.**

BACKGROUND:

Housing plays an integral role in the overall economic vitality of the state of California. Since 1990, the state has failed to put significant resources into affordable housing.

Due to next year's uncertain revenue picture, Governor Davis' first budget reflects modest expenditures for some of the most immediate housing needs of our state. However, the Governor has made a commitment to establish a state housing task force to include the Lt. Governor, the Treasurer, and the Secretary of the Business, Transportation and Housing Agency. This task force will look at permanent sources of income for affordable housing, growth management strategies, tax distribution, the fiscalization of land use, and permitting costs.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Department of Housing and Community Development (HCD) is California's principle housing agency. HCD's duties and responsibilities are focused on two main areas: (1) Administering state and federal housing finance, housing, rehabilitation, and economic development programs with an emphasis on meeting the needs of low-income and other disadvantaged groups; and (2) Analyzing, enforcing, and participating in the development of building codes and ensuring manufactured home construction standards meet federal and state statutory requirements.

MAJOR PROPOSALS

The Department of Housing and Community Development's proposed budget for the 1999-00 is \$172.4 million, which represents an increase of \$2.4 million from the revised current year budget. The Governor's budget proposes the following augmentations to the housing program:

- \$5.9 million General Fund for the Office of Migrant Services (OMS) for repairs and reconstruction of state-owned housing units used to house seasonal and temporary farmworkers;
- \$5 million to create housing for CalWorks families moving to work (formerly the Welfare-to-Work Transition Housing);
- \$2.5 million to develop a plan to address the loss of low-income housing due to the expiration of Section 8 contracts and to address the housing shortage in California;

- \$2.4 million to address the increased volume of manufactured housing sales and to complete the reduction of backlogs in the issuance of titles for manufactured homes;
- \$2 million augmentation for the Farmworker Housing Grant Fund; and
- \$1 million augmentation for the Self-Help Housing Program.

AFFORDABLE HOUSING

Affordable housing must be a top priority if we want a stable workforce and sustained economic growth. California is projected to outpace the nation in jobs, income and population growth. However, the creation of jobs in California is only part of the equation for a growing and healthy economy. Without adequate housing development to accommodate growth, the housing conditions will worsen.

In California, housing costs have, for the past 25 years at least, risen faster than the earning power of the average resident, and housing prices are the highest in the nation.

California dominates the top 25 least affordable metropolitan areas in the country. The number of low-income families is on the rise as is the demand for affordable housing. With many Californians facing new time limitations on receipt of public assistance and cut backs in social services, it is critical that the Legislature address the needs of California's working families as well as those who are moving from welfare to work.

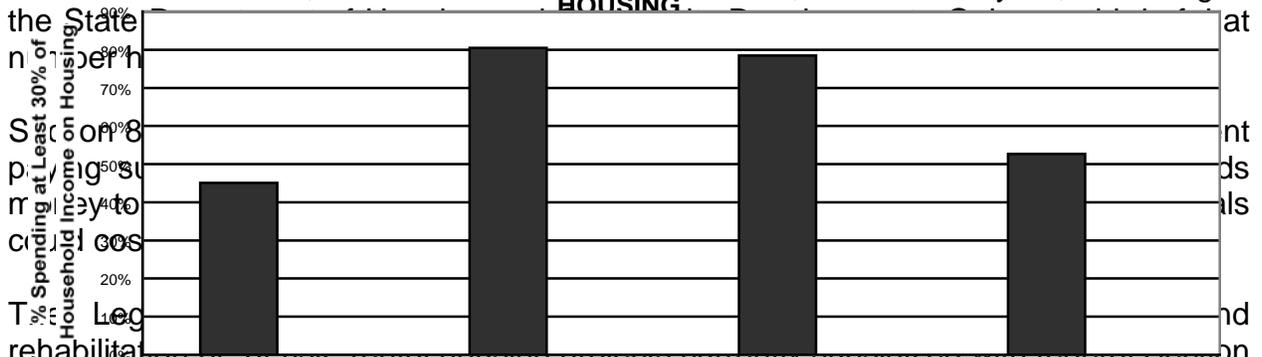
In California's six largest housing markets, San Jose, Santa Ana, San Diego, the San Francisco Bay Area, Long Beach, and Los Angeles, at least 63 percent of low income families pay more than 50 percent of their income for rent. The same six areas also have six of the country's worst housing markets for low-income individuals.

Income inequality among families with children has been increasing since the 1970s. Between the late 1970s and mid 1990s, the income of the richest fifth of families with children increased by 30 percent, while that of the middle and poorest fifth dropped by six and 27 percent respectively. The gap between the wealthiest and middle-income families in California is the third widest in the nation.

Accordingly, the number of low-income families is on the rise as is the demand for affordable housing. As the chart below illustrates, extremely low-income families are paying up to 80.5 percent of their household income for housing.

In California, only one in eleven families, 8.7 percent, of those who are eligible for publicly assisted housing receive it. The national average among other states is 23 percent. California ranks 50th among all states in this category. Despite California's strengthening real estate market, only half of the homes in major metropolitan cities were affordable for those earning average/median incomes (\$42,000).

LOW INCOME PEOPLE PAY MORE THAN THEY CAN AFFORD FOR HOUSING.



To meet the demand, California must build at least 250,000 homes a year, according to the State Department of Housing. Section 8 contracts, with more than 110,000 units of rental housing are due to expire in California in the next five years. Funding could be made available through an augmentation of the rental component of the California Housing Rehabilitation Program (CHRP-R), administered by the Department of Housing and Community Development. An augmentation of \$15 million in this program would fund the preservation of approximately 1000 housing units statewide and leverage an additional \$45 million in private and public funds.

California's economy depends on a healthy housing sector. Workers cannot find decent, affordable housing and employers cannot expand or locate in California if their workforce cannot find housing near their employment. While this condition affects families and individuals of all incomes, it has a profound impact on California's working poor, particularly farmworkers and their families.

FARMWORKER HOUSING

California's agricultural industry employs approximately 700,000 farmworkers and nets over \$7 billion dollars in income each year. Farmworkers have the highest poverty rate of any surveyed occupation – 38 percent of the workers are below the federal poverty threshold. The average farmworker earns an average of \$7,600 per year. Fewer than three percent of farmworkers qualify for market rate financing for new housing, however modest in scale. Costs are rising for new housing in California. According to the March 1997, California Population Survey (CPS), farmworkers have the second lowest rate of home ownership of any occupational group (after private housekeepers). Therefore, it is not surprising that farmworkers and their families live in seriously substandard housing. Poor housing, in turn, hurts migrant children's health, education and general welfare.

In 1995, a study on the housing needs of farmworkers conducted by the University of California at Davis, estimated that 250,000 farmworkers and their family members had inadequate housing. Effective partnerships among rural communities, growers, farmworker residents, and experienced local, state, and federal housing agencies will be the key to overcome the obstacles involved in addressing the farmworker housing crisis. The Governor's budget proposes to invest in the following programs to assist in meeting this need to house agricultural workers.

Farmworker Housing Grant Fund: The Farmworker Housing Grant Fund (FWHG) is a program that provides grants for the construction and rehabilitation of owner-occupied housing and rental housing for low-income, year round farm workers and their families. This program usually operates in conjunction with various programs offered through the federal Farmer's Home Administration. The state's \$39 million investment in the program since 1978 has leveraged over \$160 million in combined public and private investment.

The Farmworker Housing Grant Program was created in 1977 within the Department of Housing and Community Development. For the first ten years the program received a baseline appropriation of \$2.5 million per year. In the 1997-98 budget, it received \$3 million for the regular program and \$1 million for innovative farmworker housing efforts, the only additional funding since 1991.

In 1997, the department issued a statewide Notice of Funding Availability (NOFA) for \$3 million for the regular program. In response to this, HCD received 21 applications totaling \$7,554,415. Of the 21 applications, 12 were approved totaling \$2,606,863. These funds will build 312 rental units and 212 Homeownership units. However, clearly, there is a demand for use of this program that it is not being met.

Considering the serious shortage of safe and affordable farmworker housing and the contribution farmworkers make to the agricultural economy of California, the Legislature may wish to consider augmenting the Farmworker Housing Grant Fund for additional new housing units should additional resources become available. Pursuant to the May Revise.

Office of Migrant Services: The Office of Migrant Services (OMS) operates and provides 2,102 temporary and seasonal housing units to approximately 11,000 farm workers and their families annually. The majority of these units are located in California's Central Valley region.

It is estimated that there are approximately 900,000 farm workers employed by California agricultural producers who require housing. Private labor camps provide some 26,000 units most of which are for single workers. In comparison, the number of individuals who are being served by both OMS and the private sector indicates that a very small portion of that population is being served. There is a serious shortage of safe, decent and affordable housing for farmworkers and their families. The demand for housing far exceeds the existing rural housing supply. Thus, farmworkers are forced into unsanitary housing conditions which present a serious health and safety risk for farm workers, their families and neighboring communities.

The Governor's budget proposes \$5.9 million for the Office of Migrant Services to continue a multi-year program of rehabilitation state-owned housing for migrant workers. The funds will be used to rehabilitate 97 housing units at the Williams Migrant Center in Colusa County, 102 housing units at the Arvin Migrant Center in Kern County, 33 housing units at the King City Migrant Center in Monterey County, and 77 housing units at the Empire Migrant Center in Stanislaus County.

Self-Help Housing Program: The purpose of this program is to assist low and moderate income families to build and rehabilitate their homes with their own labor. Funding for this program will provide non-profit organizations with money for Self-Help construction supervision, loan packaging, and homeownership education through the Department of Housing and Community Development.

This program has proven to be very successful in enabling low-income families to own their homes. The \$1 million legislative augmentation to the program in the 1998 Budget Act assisted 150 families in building their own homes, created 335 new jobs, generated \$24.4 million in new business activity, and produced \$1.8 million in state and local tax revenue. Thousands of families are on the waiting lists – and the lists are getting longer. Due to limited funding many families have waited on the lists for up to seven years.

Other Initiatives:

- **Families Moving to Work Program:** The Governor's budget includes \$5 million to expand the Families Moving to Work Program (formerly known as Welfare-to-Work Transition Housing). This program will support legislation to modify the existing program to facilitate the development of shelters, childcare, and employment training and referral services for CalWORKs-eligible individuals transitioning from welfare to self-sufficiency. The program now contains two approaches: 1) Conversion of large existing houses into "Congregate Housing" for 3-6 families, also with a job and childcare component; and 2) Construction of new rental housing with childcare on-site, and a job-training/search program.

- **Expiration of Section 8 contracts:** The Governor's budget proposes \$2.5 million to address the housing problems related to the expiration of Section 8 contracts. During the past several decades, the United States Department of Housing and Urban Development (HUD), provided subsidies under the Section 8 program, producing over 110,000 housing units. Under the typical arrangement, HUD provided low-interest loans or rental subsidies in exchange for agreements by owners to limit rents to affordable levels for at least 20 years.

As these 20-years affordability terms have expired, many of these housing units are "at-risk" of conversion from the affordable housing stock to market-rate operations. In strong rental markets, owners have an especially strong incentive to convert.

- **Regional Housing Needs Mandate:** The Governor's budget also includes \$850,000 to continue funding for the Regional Housing Needs mandate, which had been suspended for five years until last year because of the State's severe budget problem.

State law requires every city and county to prepare a general plan to guide the future growth of a community. Every plan must contain a housing element. A housing element contains policies which encourages the development of housing; identifying housing needs, land zoning needs, housing location by types, and programs that encourage the development of lower income housing.

These monies would reimburse local governments for their costs to develop regional and local housing plans.

TRADE AND COMMERCE AGENCY

Created in 1992, the Trade & Commerce Agency promotes economic growth by coordinating and facilitating business development and job-retention efforts. In that light, the Agency also oversees the state's international trade programs through foreign investment, export cultivation, and strategic planning and research projects. For fiscal year 1999-2000, the Governor's budget proposes \$67 million for the Trade & Commerce Agency, down from \$128 million for the current year due primarily to last year's one-time \$50 million augmentation for the Infrastructure Bank and \$8 million for various one-time expenditures. However, this decrease is offset by \$530,000 in proposed current year funding for various programs designed to promote new economic development in California.

According to the Legislative Analyst, California boasts one of the most diverse economies in the country, where over 120 industries are represented. In addition, foreign trade is an increasing source of employment and economic strength. In light of these facts, the Governor has called for a review of the state's business tax laws, local-level services, and international trade programs, therefore, placing an emphasis on improving the effectiveness of the Agency, its offices and its services. Additionally, the Secretary for Trade and Commerce directed to commence planning of a trade mission to Mexico to highlight economic relationships between Mexico and California.

MAJOR PROPOSALS

The major proposals for the Trade and Commerce Agency include:

- \$3 million to continue the matching funds program for defense-related adjustment and other economic development projects, which local communities need to procure federal funding. The amount would renew the program for two more years;
- \$250,000 to expand staff for the Commission of the Californians to be located in the Governor's San Diego Office;
- \$79,000 to implement the Regulatory Fee Registry Program, which maintains an inventory of all fees and charges collected by various state entities;
- \$183,000 to finance the California Mill Reuse Program, an effort enabled by federal funds to restructure the state's local logging and milling-driven economies for the current and 1999-2000 budget year.