

WHY IS HOUSING SO UNAFFORDABLE IN THE SACRAMENTO REGION?
AN INVESTIGATION OF HOUSING SUPPLY CONSTRAINTS AND DEMAND
CHARACTERISTICS

A Thesis

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by

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Abstract
of
WHY IS HOUSING SO UNAFFORDABLE IN THE SACRAMENTO REGION?
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When housing affordability becomes a problem, it can have complex effects on society. First, it can damage local and regional consumer economies if moderate- or higher-income households refrain on spending because they devote more of their disposable income on housing costs. The real problem is when housing affordability takes away housing opportunities for low-income households. Housing advocates pressure local governments when land use decisions exclude low-income residents from housing opportunities. Homeowners and their interest groups pressure local governments when they feel that housing developers threaten their communities by proposing more housing projects, most often, affordable housing.

Most academics found that restrictive regulatory environments and constrained geography have created housing shortages in many California regions. Advocates for housing, and the poor, pointed to the power of homeowners in California (to use the legal system to block housing developments) and shortages in federal, state, and local funding (to subsidize more affordable housing) as major factors in the affordability crisis. My study sought from local government officials in the Sacramento region what their thoughts were on the causes of the housing

affordability problem. Through interviews with eight local officials, I found that the problem in the Sacramento region is a combination of those issues raised by academics and advocates. Analyzing their responses, I concluded that the foundation of this complex problem was the conflict between state and local priorities with respect to growth and housing opportunities.

Given the strict environmental and housing regulatory environment in California, an absolute solution will likely never surface. Policy makers must understand that developing any kind of housing in regions in the state require a balance between private interests and the interest of society at large. The degree of balance has long favored homeowners with the cost of fees and requirements imposed on developers passing directly onto housing prices. This has forced prospective homeowners to bear the external cost of growth. It has also caused contraction in the housing market making housing a scarce resource, pricing out the lowest-income populations. The solution I propose gives homeowner groups continued ability to shape their communities and protect their home value, while contributing their fair share of the cost of growth through tax assessment districts similar to Mello-Roos. The solution would also give more power to the Sacramento Area Council of Governments to influence land uses from the regional level.

_____, Committee Chair
Robert Wassmer, Ph.D.

Date

DEDICATION

To Christina, Cash, and Grady, my loving family who heroically inspired me through the last three grueling years of balancing family, work, and graduate school in a faraway land.

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Chapter 1

INTRODUCTION

The phrase ‘affordable housing’ is inherently political and often the subject of debate. Why is it a political? Because affordability is a perception that relies on a set of choices on how to allocate household income. Representative Nydia Velázquez (D-NY) (2014) once said, “Fair and affordable housing is a basic right for all New Yorkers and all Americans.” In California, housing advocates often imply the ‘right’ to affordable housing. Affordable housing advocates say there should be more affordable housing, while homeowners often disagree. Housing is shelter to some, an investment to others, and an environmental threat from the perspective of yet others. Developers seeking investment opportunities want to acquire land and build new housing to meet the demand of California’s growing population and shifting demographics, while more enlightened environmental advocates push smart growth that does not limit population growth, but encourages denser, more sustainable development. Homeowners want to protect their investment; while a growing number of low-and medium-income households want shelter they can afford. Elected officials want to please their constituency by approving the best way to develop land, while environmental advocates want to preserve protected space. Drawing from the economic law of supply and demand, we know that in any free market, price will increase as demand outpaces supply.

The California housing markets make for interesting studies because there are many interested parties, abundant natural resources, a variety of climates, geographical and regulatory constraints to development, and the largest and most diverse population in the country. This master’s thesis investigates the degree of the housing affordability problem in the Sacramento region through a review of the academic literature and interviews with local government officials.

The final chapter offers ideas for local government officials on how to solve the housing affordability problem.

This introductory chapter provides context on what housing affordability means. It describes the roles of the federal, state, and local governments in the provision of affordable housing. I also describe what some jurisdictions in the Sacramento region are doing to address the affordable housing problem. The introduction concludes by explaining the remainder of this thesis, offering a quick reference for what each chapter covers.

What is Housing Affordability?

Housing affordability is an abstract concept. People understand it in different ways because what is affordable to one person is not to another. Beginning in the late 1920s, the Great Depression created an urgency for government intervention in housing assistance. From 1928 to 1933, residential construction fell by 95% (Jackson, 1985, p. 193) and many middle-class families were entering poverty. By the mid-1930s, the newly created Federal Housing Administration (FHA) began the notion of more desirable versus less desirable neighborhoods by subsidizing new housing construction in suburbs. New houses popping up like weeds in the suburbs provided those that could afford it, desirable housing out of the cities, while those households that could not afford to leave saw their housing values plummet as all the demand was steered to the suburbs. This demand steering effect may have been the birth of government-sponsored gentrification. By introducing ‘redlining,’ (Jackson, 1985, p. 203) the FHA steered investors away from lending to low-income households that might benefit from homeownership while promoting investment in new suburbs that attracted higher-income households. Redlining drew a clear distinction between renting and owning. Renting became synonymous with lower incomes and home owning became the middle-class ideal. Therefore, much of the conversation

about affordability for renters would be about survival, whereas the conversation of affordability for owners would focus on the quality of life.

The federal government became involved in the housing affordability discussion with the National Housing Act of 1937 (PL. 75-412, September 1 1937), or the Wagner-Steagall Act, which created local public housing authorities and provided funds to subsidize housing for low-income households. The Housing Act of 1949 then added federal funds toward the building of affordable housing to promote urban renewal. At the time, President Truman (1949) proclaimed that an objective of government was to ensure that all American households would have a “decent home in a suitable living environment.”

Most local public housing authorities had the power to raise the rents as needed and throughout the 1960s, they increased the rents amidst rising operational costs (Schwartz, Wilson, 2008) and for building renovations (Husock, 2015). The Housing and Urban Development Act of 1969 (PL. 91-152, December 24, 1969) then amended the Housing Act of 1937, establishing the standard of affordability by limiting public housing rents to 25% of household income. The basis of the 25% threshold is unclear, but I found a study that thought it might derive from an 1875 study of spending patterns of laborers and mill workers in Massachusetts that found that workers spent 20% – 25% of their income on housing (Oh, 1995). Thus, the public housing cap became the standard for measuring affordability. Before 1969, rents funded 95% of the cost of public housing; by 1980 however, the U.S. Department of Housing and Urban Development (HUD) subsidies funded over 40% of the cost (Husock, 2015). The Housing and Community Development Act of 1974 (PL. 93-383, August 22, 1974) established the bulk of these subsidies with the creation of the Section 8 and the Community Development Block Grant programs.

The 1980 election of President Reagan symbolized the country’s political interest to reduce domestic spending and increase defense spending, as was the message in his election

campaign. In response to a recession in the late 1970s and early 1980s, The Omnibus Budget Reconciliation Act of 1981 (PL. 97-35, August 13, 1981) established a new definition of “lower-income families” (Title III, Part 2, Section 3(b)(2)) to include those households with income not exceeding 80% of the median income for the area. The definition served a multi-faceted purpose as the Low-Income Home Energy Assistance Program block grant started at the same time requiring the U.S. Department of Health and Human Services to use low-income household energy usage data to determine grant distribution (Whitaker, Pearl, 2006). The 1981 Act also increased the affordability threshold from 25% to 30% of household gross income, the percentage still recognized today by HUD. The increase to 30% reduced federal spending, but has now become the standard for determining housing affordability.

Some stakeholders in the housing industry interpret their own definition of housing affordability through various forms of measurement and housing tenure type (owning or renting). For example, the National Low-Income Housing Coalition (NLIHC) interprets affordability using their Housing Wage calculation, which determines the household hourly wages needed (assuming a standard 40-hour, 52-week, full-time job) to afford a two-bedroom apartment in states throughout the country. Furthermore, the calculation gives an amount of hours needed to work in each week to afford the same apartment at the states’ minimum wage (Arnold, et al., 2014). Challengers to the NLIHC calculation suggest flaws because many people paying more than 30% of their income do so by choice and because no one is entitled to a two-bedroom apartment (Phillips, 2014). The National Association of Realtors (NAR) interprets housing affordability with an index determining whether households can qualify for a mortgage loan. The NAR Housing Affordability Index (assumes a 20% down payment and mortgage principle and interest does not exceed 25% of household income) is a complex comingling of formulae accounting for interest rates, median single-family home sale price, median family income, necessary and

qualifying income, and monthly payments (NAR, n.d.). The two indices clearly represent divergent thinking about target populations and their tenure choice. Nevertheless, beyond the variations of definitions and measurements, housing affordability is always a manifestation of housing costs and some view on the ability to pay.

The 30% of household income is the standard for measuring housing affordability, but some argue it works, some argue it does not. The argument for the 30% threshold suggests that it is the point where housing costs become a burden, affecting a household's ability to pay other nondiscretionary expenses (Schwartz, Wilson, 2008). The argument against the 30% threshold not only challenges the number, but some challenge the rationale for government intervention in housing. A reasonable argument against the 30% of income threshold is that it does not include transportation costs (Phillips, 2014). For example, someone choosing to pay more than 30% of their income for housing near transit that greatly reduces their total costs and is a matter of housing preference. However, it may require moderate to upper levels of income to have the opportunity to exercise that choice. On the other hand, a low-income household may find housing that requires only 25% of total income, but accrue exorbitant transportation costs as a result. Other critics suggest that government intervention in housing has exacerbated the problem the government solution intended to solve (Husock, 2015). This argument contends that as government engineers housing opportunities for low-income households, it creates a disincentive for those households to achieve good housing by unrestricted means. In other words, housing as a handout makes people feel like they do not need to work for it. Furthermore, the argument suggests that the increase from 25% to 30% of income for those that receive housing assistance only meant that the more they earned, the more they would need to pay, creating an incentive to earn less (Husock, 2015). This argument is reasonable; however, it only applies to public housing rentals that are subject to Section 8. When low-income households have the choice of where to

live, this argument seems to become less relevant and one has to believe that local housing affordability statistics compute from choice.

Some Housing Affordability Definitions

To better understand the language used throughout this thesis, I assembled a group of relevant definitions as provided below in Table 1.

Table 1: Glossary of Relevant Terms

Term	Definition
<i>Median Income</i>	The amount that divides the income distribution in an area into two equal groups, half having above that amount, and half having income below that amount. Defined by U.S. Census Bureau data.
<i>Median Housing Price</i>	The amount that divides the distribution of housing units sold at market price in an area into two equal groups, half having above that amount, and half having income below that amount. Defined by U.S. Census Bureau data.
<i>Moderate Income</i>	120-80% of the median household income for the area, subject to adjustments for areas with unusually high or low incomes or housing costs
<i>Low-income</i>	80% of the median household income for the area, subject to adjustments for areas with unusually high or low incomes or housing costs
<i>Very Low-Income</i>	50% of the median household income for the area, subject to adjustments for areas with unusually high or low incomes or housing costs.
<i>Extremely Low-Income</i>	Household income not exceeding 30% of the median income of the area or the federal poverty level.
<i>Low- and moderate-income household</i>	A household having equal to or less than the Section 8 low-income limit established by HUD. **NOTE** (if local median income is less than the state non-metro median income) income limits are based on state non-metro median income and, incomes are adjusted by family size – larger families have higher income limits
<i>Fair Market Rent (FMR)</i>	The 40th percentile of gross rental cost, to include rent and utilities, for typical, non-substandard rental units occupied by recent movers in a local housing market
<i>Metropolitan Statistical Area (MSA)</i>	A geographical region with a relatively high population density at the core, having a high degree of social and economic ties to surrounding communities. May include multiple cities and counties.
<i>Region, Local Housing Market</i>	The Metropolitan Statistical Area as defined by the U.S. Census Bureau.
<i>Housing Affordability</i>	The degree to which households can afford housing, consuming 30% or less of their income.
<i>Affordable Housing</i>	Housing that low- and moderate-income households can afford without spending more than 30% of their incomes.
<i>Market-Rate</i>	Housing that households can afford without public subsidies to either the

Term	Definition
<i>Housing</i>	builders or the households.
<i>Deed-Restricted Housing</i>	For-sale affordable housing with a legal condition of the sale that requires the house to sell to a low- or moderate-income buyer for a sub-market-rate price set by the jurisdiction. The buyer of a deed-restricted house can only resell the house to another low- to moderate-income at a sub-market-rate price set by the jurisdiction.
<i>Entitlements</i>	Development rights given by local jurisdictions to the public after establishing a framework of policies and goals in the general plan.
<i>Exactions</i>	Allowable taking of money or property or demand for performance of needed service or construction based on proportionality and nexus tests required by two United States Supreme Court rulings: <i>Nollan v. California Coastal Commission</i> , 483 U.S. 825 (1987) and <i>Dolan v. City of Tigard</i> , 512 U.S. 374 (1994).
<i>Construction Permit</i>	Permit granted by a local planning agency to allow the commencement of construction, typically following exaction payments (if applicable).
<i>Local Officials</i>	Local elected and appointed decision-makers and their agencies' staffs involved with housing programs, land use planning, or community development.
<i>Housing Construction Economics</i>	The typical housing development market characteristics including costs, housing quality, demographics, and location.
<i>Profit Margin Gap</i>	The ability of housing developers to profit considering the gap existing between the cost of construction, including raw materials, fees, and exactions and what prices buyers in the housing market will bear.

The Basis of the Housing Affordability Problem

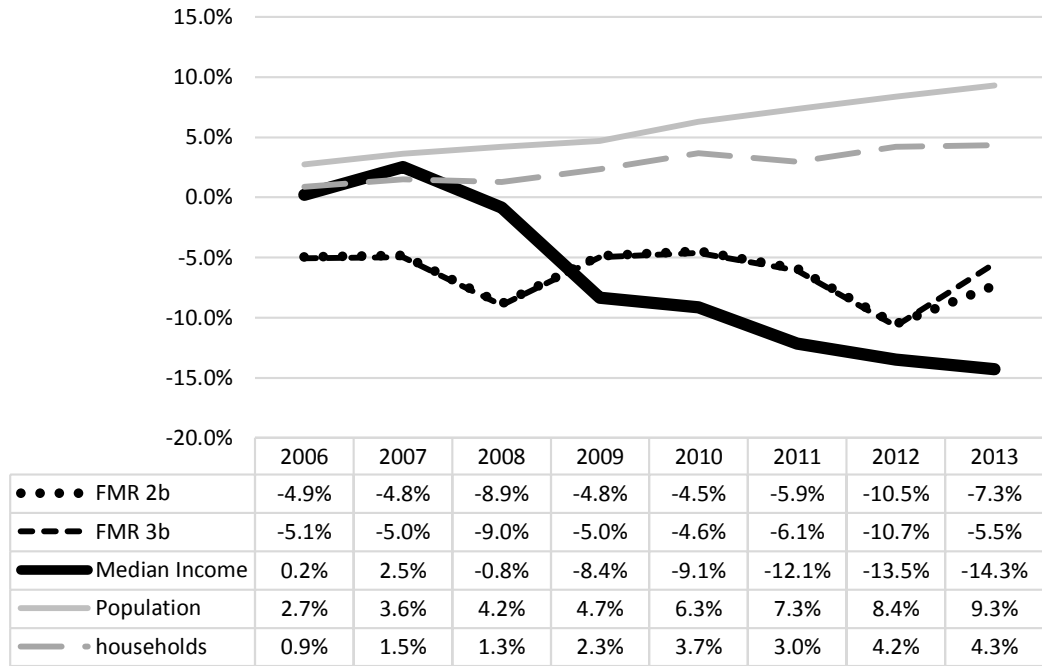
A healthy regional economy has thriving markets, low unemployment, and sufficient housing. These three characteristics converge around the reality that consumer spending occurs at healthy margins. As households pay more for housing, spending to purchase goods and services in other markets decreases. As these spending decreases, unemployment can increase. The trade-offs that households must make as housing costs increase have serious implications for California and its regions. The California Legislative Analyst's Office (2015) notes that the high housing costs in the state make it a less attractive place to live, creating a difficulty for companies wishing to hire and retain highly qualified employees. Moreover, with increasing housing costs, Californians must commute farther, finding less costly housing further away from employment

centers, and face living in crowded housing as family generations consolidate. People who cannot afford high housing costs must take on these additional external costs, which generally justifies government intervention.

As household income, adjusted for inflation has continued to decrease (Figure 1), fair market rents have not kept pace, creating a problem of affordability. I presented this gap in percentage-change inflation adjusted (2013-dollar value) figures because I think it is interesting that rents and incomes have failed to keep up with the decreasing value of the dollar. Figure 1 shows that the median household income in Sacramento County has decreased at a steady pace while the population and number of households has steadily increased, creating a greater need for housing in the area. Rent and income are not keeping pace with inflation, but rents are keeping much closer to the inflation rate than the median income, which is the core of the affordability problem. This thesis investigates the drivers of this problem.

To highlight the magnitude of the problem, the California Housing Partnership Corporation (2014) released a report identifying that 90% of low-income households in Sacramento County pay over 30% of their pay on rent. Moreover, nearly 70% of very-low income households pay over 50% of their pay on rent. Possibly the strongest point from the report is that Sacramento County has a shortfall of nearly 53,000 homes affordable to very- and extremely-low income households. This clearly suggests the problem of affordability hinges on housing supply (Van der Meer, 2014).

Figure 1: Sacramento County percentage change in rents (2 & 3 bedroom), income, population and households since 2005 (in 2013 dollars)

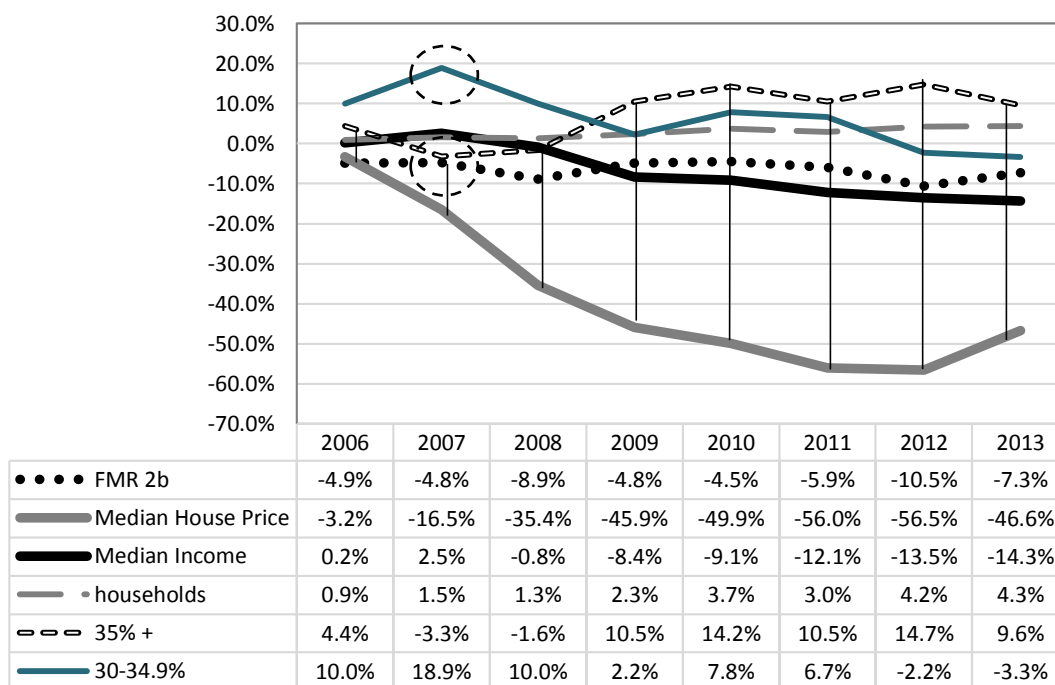


Source: U.S. Census Bureau, American Community Survey, Fair Market Rent (FMR) values from HUD Federal Register for Housing Voucher Program, amounts adjusted for inflation using the Consumer Price Index

Reports like that from the California Housing Partnership Corporation are common. The *Sacramento Bee* reported a similar story, but in reference to declining homeownership; showing that homeownership has become increasingly unreachable by a growing segment of the local population (Sangree and Reese, 2014). The article suggested that Sacramento County has seen a 9.4% decline in homeownership between 2006 and 2013 and is becoming more like San Francisco and San Jose, whose markets saw dramatic price increases in the last few decades, forcing many average earners out of the area. As an indicator, 33% of homes in the County were for sale in August 2014 at under \$250,000, compared to 50% just two years earlier. Figure 2 shows an upswing in median house prices in 2013 but it also shows a connection between housing price and the percentage of households paying 35% or more of their pay on rent. As the California housing market crashed beginning in 2006, the flood of owners of foreclosed houses

created a rapid rise in rental housing demand. As the supply of rentals began to shrink, the prices rose. The two most dramatic years in the crash, 2007 and 2008 appear in Figure 2 as key periods. In 2007, the divergence between house prices and 35% of income rent payers began to sharpen and in 2008, the divergence compounded by decreasing wages.

Figure 2: Sacramento County percentage change in median household income, median house prices, fair market rents, households and the percentage of households paying 30-35% or more of their income on rent since 2005 (in 2013 dollars)



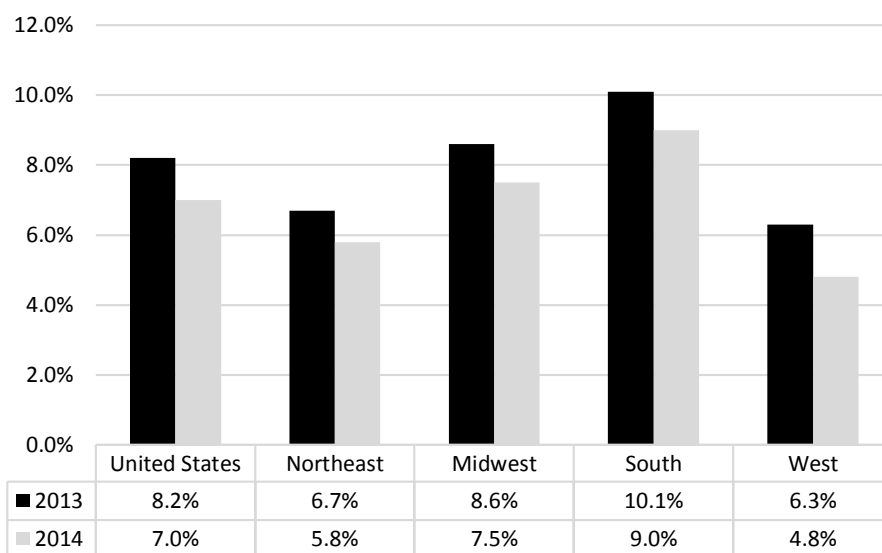
Source: U.S. Census Bureau, American Community Survey, Fair Market Rent (FMR) values from HUD Federal Register for Housing Voucher Program, amounts adjusted for inflation using the Consumer Price Index

Figures 1 and 2 illustrate a steady increase in population and households in Sacramento County over the 2006 to 2013 period, which indicate steady increasing demand for housing, but what about the housing supply? The number of residential building permits issued indicates the increase in housing supply. In California, the number of permits peaked in 2004 with nearly 213,000 issued that year. That number rapidly reduced to around 36,400 in 2009, with less 3,000 of those in the Sacramento region (California Department of Housing and Community

Development, 2014). From that low point in 2009, the annual number of permits has slowly increased, but the dramatic drop following the housing crash left a substantial gap and 53,000-unit shortfall.

Figure 2 illustrates another interesting reality with sharp decline in house prices paralleling the rise in the percentage of households paying more than 35% of their incomes on rent. The Legislative Analyst's Office (2013) reported that in 2012, house prices began to rise quickly because investors purchased houses with cash when houses prices bottomed out after the recession. Many households that had their houses foreclosed, entered the rental market, and as low-income households saw the opportunity to purchase, they found themselves excluded as the cash investors provided sellers easier transactions. Those excluded households also competed in the rental housing market and, as investors converted houses into single-family rentals, the supply was not enough to serve the demand. In 2013, the *Sacramento Bee* reported that Wall Street investor Blackstone, with its property management firm Invitation Homes, purchased 1,500 houses in Sacramento County (Sangree, 2013). The firm bundled the rental revenue for 239 of those homes into rental-backed securities sold to global investors, similar to mortgage-backed securities that characterized the housing market crash in 2008. The fear is that the perceived success of this new kind of securitization will pressure Blackstone to raise rents, avoid maintenance, and execute mass evictions without consequence with no connection to the community (Sangree, 2013).

Vacancy rates are another important element of housing affordability as it is a measure of demand. Housing construction stagnation has kept vacancy rates very low. Recall Figures 1 and 2 show that the number of households in the Sacramento County continues to grow despite the lack of housing production. Not surprising, the vacancy rate is the lowest in the country as denoted by region in Figure 3. The 2013 and 2014 vacancy rate in the west region is well below the national

Figure 3: 2013 & 2014 Year-end Rental Vacancy Rates by US Region

Source: US Census Bureau Current Population Survey/Housing Vacancy Survey

average. The Sacramento Area Council of Governments (SACOG) 2013-2021 Regional Housing Needs Plan (2012) determines rental-housing need by comparing estimated household growth against an acceptable vacancy rate assumed to account for mobility and tenure choice. The acceptable rate ranges according to SACOG are 1% – 4% for owned homes and 4% – 8% for rental homes and it uses 5% for rentals in its determination. These ranges work when considering the variation in vacancy throughout the year and across years. However, as shown in Table 2, the U.S. Census Bureau vacancy rates for the Sacramento region are trending downward. The 5% SACOG uses to determine the regional housing need is likely the best available information, but this trend certainly suggests an increasing housing shortage. In the last few years, the vacancy rates of rentals and owned houses have been teetering somewhere around the low end of the acceptable rate range.

Table 2: Year-End Vacancy Rates in the Sacramento-Arden-Arcade-Roseville, CA Metropolitan Statistical Area

Year	Rentals	Ownership
2014	4.9	0.7
2013	7.5	1.5
2012	7.5	1.6
2011	7.8	1.9
2010	8.6	2.8
2009	12.6	3.2
2008	8.2	4.2
2007	8.0	6.1
2006	13.8	2.6

Source: US Census Bureau Current Population Survey/Housing Vacancy Survey

What is the Role of Government in Affordable Housing?

In the last section, I explained that housing affordability is a function of housing supply and demand in the housing market. Federal, state, and local governments heavily regulate the markets, as I explain in this section.

The Federal Government –Community Development and Safety

The main role of the federal government in housing is to implement housing related statutes by direct appropriation or indirect subsidization. Shortly after the Great Depression, the federal government intervened in housing markets to solve financial market and employment problems. After World War II, federal intervention solved the housing shortage problem that took shape as the military returned home. In the 1960s, federal intervention took on more of a social welfare form to house the poorest Americans and that is its function today. Federal programs to support housing include Section 8, providing public housing rental assistance, the Low-Income Housing Tax Credit program, Community Development Block Grants (CDBG), the HOME Investment Partnership program, tax benefits for development of affordable housing, and various tax expenditure programs to promote homeownership. However, the bipartisan Policy Center

2013 Housing Commission Report, *Housing America's Future*, reports that the federal government spends about \$180 billion a year to support housing. The U.S. Housing and Urban Development (HUD) Department directs \$48 billion to low-income renters, the rest supports homeownership through mortgage interest and property tax deductions for homeowners (Arnold, et al., 2014).

Some cities and counties receive CDBG and HOME awards directly from HUD. Jurisdictions use CDBG awards for a variety of community development priorities, which may or may not include affordable housing. The HOME awards are specifically for “building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people” (HUD, n.d.). Larger cities and counties are entitled to CDBG awards; others receive portions of the state grant. Sacramento County received around \$6 million each year from 2006 – 2010, but saw a decline to \$4.5 million in 2012 (HUD, 2014). The HOME works the same CDBG; except smaller cities can counties can collaborate to meet the minimum formula allocation limit of \$750,000. For example, the Sacramento County consortium received over \$3 million per year from 2006 – 2011 and about \$2 million in 2012 and 2013, which allocated funds between the unincorporated areas in Sacramento County, Citrus Heights, Folsom, Isleton, and Galt. Elk Grove and Rancho Cordova were members of the consortium until 2009.

The federal government also plays a role in limiting the supply of housing through financial constraints and regulatory power in a few ways. First, by limiting the land available for any kind of development. The federal government owns 47.7% of the total surface area of California (Gorte, et al., 2012). Much of the federal land managed in the Sacramento region encompasses forests in El Dorado County, interstate highway easements, wildlife refuges, and considerable floodplain areas. The federal government does not own these, but the Federal Emergency Management Agency (FEMA) encourages state and local governments to zone these

areas as open space and can restrict development in these areas if needed (FEMA, 2014). The Sacramento Natomas area is a good example as FEMA imposed a building moratorium in the area in 2008, halting all construction for levee repair and upgrades. While FEMA recently lifted (Weiser and Bizjak, 2015), it still requires flood insurance creating a disincentive to build and buy in the area.

California Policies and Affordable Housing

California housing policies include requirements for housing elements in local general plans and regional housing needs assessments and programs to encourage affordable housing. All of which must consider environmental impacts. It is hard to discuss California housing policies without briefly discussing Proposition 13 (1978) which resulted in local officials using fees and assessments to replace property taxes. Proposition 13 took property-taxing power from local jurisdictions and limited property taxes to one percent of the assessed value of a property's acquisition value. Local officials began to prefer zoning and entitlements toward sales-tax generating building, to accommodate the shift to fees and assessments. Together, the increased sales tax, fees and assessments supplanted lost property tax revenue. Housing was less of a source of revenue to local governments. Housing only generated property tax at 1% assessed value and housed people that would require the provision of public services. Affordable housing development began to give way to sales tax-rich projects, and high residential property value projects through fiscal zoning (Fulton and Shigley, 2012).

It is equally as difficult to discuss California housing policies without also discussing the California Environmental Quality Act (CEQA). NIMBYs ("Not In My Back Yard," (Rosa, 2012)), and open space and environmental advocates have used CEQA, passed in 1970, to complicate and to prevent the construction of housing. CEQA is a single-issue (project specific) law that is highly procedural, leaving plenty of room for litigation. The intent of the law (Public

Resources Code § 21000) is to protect the environment and to inform of the interrelationship between ecological systems and regulatory actions and private development interests. CEQA is a full disclosure law that requires developments to provide complete environmental impact reporting, and because of its complex procedures, almost any residential project is vulnerable to lawsuits (Fulton, Shigley, 2012). Therefore, housing developments face statutory requirements (adherence to CEQA Guidelines) and court-made laws (through CEQA precedent). However, CEQA is not a barrier in communities that welcome development, but can be a formidable obstacle where NIMBYs influence local development decisions. *No Oil, Inc. v. City of Los Angeles* (1975) 13 Cal.3d 68 made CEQA a tool for blocking projects at-will by requiring an Environmental Impact Report (EIR) of any project where a “fair argument” suggested environmental damage. The EIR, being costly and time consuming, could kill any project on the grounds of political distaste (Fulton and Shigley, 2012). The ruling was significant because one of the major costs in development is time.

Perhaps the best example of CEQA related delay costs is the Sacramento Railyards development proposed in 2006. The proposal included around 12,000 residential units. The developer completed the EIR and the City of Sacramento certified it in 2007 to amend the city general plan with the “Railyard Specific Plan.” In 2008, two Sacramento County Superior Court cases, *Downtown Plaza, LLC v. City of Sacramento* and *Sacramento Citizens Concerned about the Railyards, et al. v. City of Sacramento* (City of Sacramento, 2009), challenged the EIR. In both cases, the Superior Court ruled in favor of the city, stating that the EIR was consistent with CEQA Guidelines. The combination of the demise of redevelopment agencies and the timing of the economic recession had weighed heavily on the project failing to get underway (Will, 2013); however, the cost of delay caused the developer to go bankrupt and the project has yet to see shovels hit the ground.

However much a potential deterrent to affordable housing CEQA might be, the California legislature addressed the need to soften the restrictive power of the law over residential development that might actually prevent environmental degradation. In 2008, the legislature passed SB 375, the Sustainable Communities and Climate Protection Act, which requires coordination with councils of governments' regional housing needs assessment activities with metropolitan transportation planning to reduce the effect of greenhouse gases from cars and trucks on the environment. SB 375 assumed that transit oriented development will reduce automobile dependency and reduce CO² emissions to meet 1990 levels as required by AB 32, the Global Warming Solutions Act of 2006. The key provision in SB 375, to promote transit-oriented development, qualifying as "transit priority projects," is to exempt (or partially exempt) these developments from CEQA requirements, thereby protecting them from litigation. To qualify, they must align with the California Air Resources Board accepted regional sustainable community strategy (Institute for Local Government, 2010). In other words, the law encourages local general plans to mirror regional plans. The law intends to create resistance-reduced housing by dulling the sharp edge of the CEQA tool communities typically use to fight new residential developments. Furthermore, SACOG adopted a "Preferred Blueprint Scenario" (SACOG, n.d.) for land use and transportation planning in the region, expecting that local jurisdictions will comply. However, the CEQA requirements apply to the Blueprint as well as local general plans that conform to the Blueprint, but nothing requires local jurisdictions to comply. SB 375 encourages but does not require compliance. If desired politically, local decision-makers could ignore the Blueprint and continue with sprawling construction patterns. However, they would likely face stronger CEQA based opposition. SB 375 could indirectly lead to added housing units, assuming local governments, and developers can come to agreements in developing within the policies and goals stated in general plans.

Since the passage of Proposition 218 in 1996 (which closed revenue raising loopholes left from Proposition 13), local governments have been seriously constrained on their use of fees and assessments to pay for development infrastructure. They turned to redevelopment revenues and developer exactions for public projects (LAO, 1996). However, because the demise of redevelopment agencies and exhausting of Propositions 46 and 1C state (state affordable housing bonds passed in 2002 and 2006, respectively) funding, exactions are among the few remaining fiscal tools. My next section explains more about developer exactions. In fiscal year 2007-08, redevelopment agencies and Propositions 46 and 1C produced \$20.4 million and \$83.6 million in affordable housing funds for communities in Sacramento County. Those funds evaporated by 2012-13. It is unclear whether those funds made much difference to affordable housing markets in Sacramento County; housing shortages persist. Even if there was enough money, state and local officials may not have distributed the dollars effectively. CDBG and HOME funds also fell from \$20 million in 2007-08 to just \$6.4 million in 2012-13 (California Housing Partnership Corporation, 2014). Of the \$6.4 million, \$4.5 million is community development block grant money, which local official often spend on other general plan goals, not just affordable housing.

Recently, the legislature has considered ways to replace some of the redevelopment. AB 35 (Chiu D–San Francisco) would increase the annual Low Income Housing Tax Credit funds from \$70 million to \$370 million. AB 90 (Atkins D–San Diego) would redefine how California distributes National Housing Trust Fund dollars, established by the federal Housing and Economic Recovery Act of 2008. AB 1335 (Atkins D–San Diego) would establish a dedicated fund for affordable housing with a \$75 fee on real estate transactions documentation (White, 2015).

Local Government Land Use Regulations

The local control over land use planning, granted by the federal and state constitutions, has long been at the heart of housing availability. The 10th Amendment to the U.S. Constitution makes local government a state matter. The California Constitution, Article XI, grants local governments the power to implement projects and programs, the power to raise revenue, the power to take private property for public use (with respect to the 5th, 10th, and 14th Amendments of the U.S. Constitution), and power to regulate private behavior for public health, safety, and general welfare (Detwiler, 2015). In addition to the state and federal roles, the local regulatory power drives legislative decision-making about land uses through general and specific plans and the zoning ordinances. Implementations of policies are adjudicative with subdivisions and construction permitting decisions generally made by local planning commissions. Legislative actions, adopted by city councils or county boards of supervisors, are subject to voter repeal or revision (initiative or referendum, authorized by California Constitution Article II), while adjudicatory actions are not. Both are discretionary or subjective based on consideration of alternatives, which are subject to CEQA rules (Fulton and Shigley, 2012). Therefore, city councils and county boards of supervisors have the legal incentive to develop their general plans and zoning ordinances according to the will of their residents. Furthermore, Government Code §66473.5 requires that all planning be consistent with the local general plan, which means that all zoning ordinances must further the goals and policies stated in the plan. Therefore, power of local governments flow from the will of residents and that has important ramifications for regional planning efforts encouraged by SB 375 and proposed with the SACOG Blueprint. If the residents do not want development, it will not happen.

Housing affordability has become more of a priority because of Government Code §65583(c), which requires jurisdictions to develop programs to ensure enough housing affordable

for low- and moderate- income households. As a result, many cities have adopted exaction ordinances such as inclusionary zoning and with amendments to their general plans. The City of Sacramento adopted Mixed Income Housing Ordinance for New Growth Areas in 2000. The city ordinance requires that developers of housing projects with eight dwelling units or more build 10% of the units affordable enough for very low-income households and 5% for low-income households. It also requires the developer to build the affordable units on site; however, the developer can dedicate land within the new growth area to the Sacramento Housing and Redevelopment Agency for extremely low-income housing development. The City offers incentives to developers subject to the inclusionary housing ordinance including developer fee waivers, density bonuses, streamlined permitting processing, and public funding through tax credits (Low Income Housing Tax Credit) and state and federal funds (CDBG and HOME program) (City of Sacramento, 2000). According to the city's mapped "new growth areas" subject to the Mixed Income Housing policy, these inclusionary zoned areas are on the city fringe south of Consumnes River Boulevard, the area south of Folsom Boulevard and East of Power Inn Road, and the Natomas/Del Paso area north of Interstate 80. The Railyards is in a new growth area also—development has stalled in litigation. Development in the Natomas area has been restricted.

In 2014, the County of Sacramento revised its Affordable Housing Ordinance, which is similar to the City's 2000 ordinance. The ordinance requires developers to build 10% of their units as affordable housing, exempting restoration projects, and conversions of non-residential buildings to residential use. The County's ordinance also exempts mixed-income developments of 17 dwelling units per acre or more, where 20% of units are affordable to low-income renters. The County ordinance now offers a variety of ways to meet the affordable requirement including land dedication, 15% affordable units, payment of in-lieu fees of \$2.50 per habitable square foot of all

market-rate dwelling units, or some combination of these alternatives (Sacramento County, 2015). The building industry thought the prior affordable housing ordinance was too restrictive with 15% of units required as affordable—6% for low-income, 6% for very low-income, and 3% for extremely low-income (CALegalAdvocates.com, 2006). As of 2014, the unincorporated areas in Sacramento County only had 263 affordable units built since 2004, compared to 1,500 units in the City of Elk Grove, with less restrictive inclusionary housing policies (Locke, 2014).

The City of West Sacramento passed its inclusionary housing ordinance in 2005. The City revised its housing element in 2013 and the first stated goal is for adequate land for a balanced range of housing. The City will use inclusionary housing requirements to meet the goal objective of meeting the housing need as stated in the SACOG Regional Housing Needs Assessment. The ordinance requires rental-housing developers to build 5% of dwelling units affordable enough for low-income households and 5% affordable enough for very low-income households. It requires development of ownership housing to make 10% of dwelling units available to low-income households. The City intends flexibility for its inclusionary housing program and negotiates with Housing Trust Fund Program support or other alternatives to achieve its inclusionary housing goals. The alternatives include acquiring existing market rate units to rehabilitate and convert to affordable inclusionary units, construction of affordable units off-site, and the acquisition and preservation of existing affordable units (City of West Sacramento, 2013).

The City of Folsom attempted to repeal its inclusionary housing program, citing that it prevented housing development and threatened the ability of the City to meet the housing needs at all income levels. However, the Sacramento Housing Alliance sued the City, arguing that removing the policy created an inconsistency with the housing element and that the City failed to amend the element with alternatives to inclusionary housing (Sacramento Housing Alliance, n.d.).

The city council decided to keep the inclusionary program, but reduced the affordable unit requirement to 10% from 15% (Locke, 2014).

Elk Grove and Rancho Cordova do not have inclusionary housing policies, but do have affordable housing provisions by collecting fees determined through nexus studies or with incentives tied to density bonus programs. The Elk Grove general plan requires the City to plan for adequate housing for all income levels by maintaining an Affordable Housing Fund. The City maintains the fund by levying Affordable Housing Fees to market rate housing and non-residential construction (City of Elk Grove, 2015). Rancho Cordova requires developers seeking to build in vacant areas to prepare an Affordable Housing Plan, which allows the developer to choose from either on- or off-site construction of affordable dwelling units, land dedication, rehabilitation of existing housing stock, or payment of in-lieu fees. The City does not require a statement of a certain amount of affordable units, but it does require the developer to state its intent. The City encourages affordable housing construction with the typical array of modes including density bonus, reduced parking standards, expedited processing, fee waivers, and development standard modifications (City of Rancho Cordova, 2013).

While cities with inclusionary zoning or housing programs have adopted their respective policies to promote affordable housing, building and housing advocates continue to squabble about the effectiveness of the policies. Before Sacramento County relaxed its inclusionary program late in 2014, a representative for the North State Building Industry Association called it “a huge roadblock” (Locke, 2014). Building advocates say that paying fees toward an affordable housing trust is the way to go while housing advocates fear jurisdictions will not charge enough to produce the level of affordable housing needed (Locke, 2014). Folsom city officials, after relaxing their inclusionary housing program, are struggling to secure a huge development on vacant land south of Highway 50 because they feel developing the area between Prairie City

Road and Scott Road is inevitable and that if they cannot get it done, then developer friendly Rancho Cordova or Sacramento County will develop it (Bizjak, 2015).

Introduction Summary

The U.S. Census Bureau median household income, median house price, and the HUD Fair Market Rents show an increasing housing affordability problem. The generally accepted measure of affordability, 30% of household income devoted to housing costs appears to be growing further out of reach by large segments of the population. Many low-, very low-, and extremely low-income households pay much more than 30% of their income towards housing costs, leaving little money to spend in other areas of a sluggish economy.

The law of supply and demand suggests that housing costs have risen to the current levels because the housing supply is not keeping up with the pace of demand. However, while much of the attention paid by the media and by housing advocates points to inadequate housing supply as the reason for unaffordability, none mentions decreases in demand, which could produce the same goal of affordability. The data available for this study shows affordability trends in Sacramento County, but none is available for neighborhood level, where demand characteristics are most important. Presumably, neighborhoods with the best amenities (e.g., good schools, parks, shopping, and low crime) are in highest demand. Less desirable neighborhoods, with fewer amenities, must then be affordable.

All levels of government have a role in constraining the supply of housing for safety, health, or general welfare. The CEQA rules provide anti-growth and environmental advocates with the ability to block undesirable housing developments with a simple “fair argument” that may only be fair to the opponent. However, local governments have the largest role because they regulate the land use activity within their planning areas. All local jurisdictions must produce general plans that coordinate goals and policies with their implementation actions and in most

cases, result in some sort of affordable housing policy that places a burden on developers. The next chapter provides a literature review looking at the academic definition of housing affordability, the economics of housing regulation, and some of the implications of demand regulation that affects housing supply.

The Structure of this Thesis

After this introduction is a detailed literature review, a discussion of my research method, and an analysis and conclusion based on my findings. In the literature review chapter, I looked at academic perspectives on housing affordability including the definition, the workings of supply and demand, and government regulations affecting supply and demand. In the methodology chapter, I introduced questions about local housing affordability I used to interview local officials. The analysis chapter compared the interview responses with information obtained through this introduction and the literature review. In the conclusion chapter, I carried my findings statements over to provide informed ideas on how best to deal with the housing affordability problem in the Sacramento region.

Chapter 2

LITERATURE REVIEW

An abundance of literature exists about various elements of affordable housing. Many researchers have looked at the supply side of the housing market and some have looked at determinants of demand for housing. I consider the literature in these areas to look specifically at three specific themes. First, I look at the academic definition of housing and the metrics, for which it is measured. Next, I review research on constraints on the development, including the supply of housing. Thereafter, I focus on determinants of housing consumption demand spikes. I believe these three themes contribute to a rich understanding of the housing market conditions and the role government plays. This review is the foundation for interview questions I developed to understand the role of government and regulation in the Sacramento region housing market.

Housing Affordability and its Measurement Metrics

Is your home affordable? The typical answers are yes, no, or maybe depending on how the term “affordable” is defined. The impulsive answers are yes or no. The academic answer is maybe. The ‘maybe’ answer is because the idea of affordability in a housing market is complex. There is an abundance of literature on the idea of affordable housing; and in one way or another, all of the literature revolves around the economic principles of supply and demand. Despite the various determinates, affordability is always a question of housing cost relative to the income that residents possess to bear that cost. Academics tend to look at housing affordability in a much more complex way than the media or even the normal housing consumer.

How do academics define housing affordability and its metrics?

The literature does not offer a distinct definition of housing affordability outside of the common measurement concepts. Nevertheless, academics and economists offer ideas on the scope of unaffordability and how it happens. Raphael and Quigley (2004) reasoned a complex

theoretical concept of housing affordability asserting that it is the intermingling of a disparate set of issues. These issues include the distribution of housing (in terms of quality) and income (ability to pay), the capacity of households to borrow, public policies affecting housing markets, the conditions in the local market affecting housing supply, and the choices households make in determining the level housing to consume among other competing consumption alternatives. This view suggests there is a complex formula with many inputs to get a true understanding.

Some of the literature favored the demand side to describe affordability. For example, Matlack and Vigdor (2006) suggested that decreasing affordability in regional housing markets was synonymous with rising income inequality. Gellen (2014) recognized the traditional definition as a balance between prices and income. However, he noted that the definition does not account for the socially derived difference between single and dual-income earner households that adds family values to the affordability equation. Fingleton (2008) also defined affordability by income over prices; but he used averages, which raised questions about intra-place variability in income and housing (assuming some constant in supply elasticity). He attempted to correct for this variability by incorporating a competitive industry production formula, assuming general equilibrium, with a wage model that considers worker efficiency.

Housing supply and affordability

Other literature leans more toward supply to explain the meaning of affordability. Although it is difficult to conceive of any definition that does not include ability to pay, an inherent demand characteristic, Ryan and Enderle (2012) approached the issue from an availability standpoint; suggesting that affordability is a social argument of accessibility to available housing on high-value land. They argued that affordable housing is not just about ability to pay, it involves the distribution of social capital of reduced segregation. In other words, political demands essentially makes the sharing of high-value land among social classes virtually

impossible. The combination of density bonus seeking and political opposition (presumably deriving from stigmatized distaste for affordable housing) forces developers to concentrate affordable housing on low-value land.

Housing supply often emerges as the preface for explaining affordability problems because of price volatility (Paciorek, 2013; Green, et al., 2005). Smith, et al., (1988) told us that housing is a durable good and because of its long life cycle, the existing stock weighs heavily on decisions to construct new stock. In other words, housing development involves a commitment and opportunity cost and its supply does not adjust easily in response to demand shocks. Paciorek (2013) and Green, et al., (2005) studied factors reducing supply elasticity by looking across metropolitan statistical areas. This vantage point appeared appropriate considering local housing development choices and the spillover effect, where a housing shortage in one city could spill demand for housing over to a neighboring city, creating a shortage there too (Malpezzi, 1996; Quigley and Raphael, 2004; Levine, 1999).

Most researchers used a ratio of median household income over median housing price to determine aggregate housing affordability (Chakrabarti and Zhang, 2014; Gellen, 2014). Others compared percentage of income used for monthly rent or mortgage (Quigley and Raphael, 2004). Some studies noted the variation in housing prices between owners and renters. Chakrabarti and Zhang (2014) examined California municipalities by using county-level incomes (using census data) over city-level prices using data (Business and Economic Statistics Section of RAND California). However, the metrics depend largely on the definition. Moreover, in all cases, an increase in housing supply in an area will lower the price of housing. No matter how a researcher or practitioner measures affordability, a shortage of housing will necessarily increase the price.

Some of the literature looks at affordability as bifurcated between owner-occupiers and renters, recognizing the difference in housing cost (Smith, et al., 1988; Malpezzi, 1996; Quigley

and Raphael, 2004), and Smith, et al., (1988) noted that with taxes and interest rates, owning a home to live in or as means to provide rental housing, user costs vary. This owner/renter bifurcation may challenge the notion that a housing price/household income ratio accurately describes affordability and sets up a situation where households may consider arbitrage. The separation of the rental and owner markets creates an important distinction about the difference between housing stock and housing services, which respectively defines investors and consumers in the consolidated housing market (Smith, et al., 1988). Affordability might then be the difference between incentivized investment arbitrage and criteria for a consumption choice.

Quigley and Raphael (2004) found that there is little evidence that housing has become less affordable for owners, while housing for renters in lower-income quintiles has become quite unaffordable between 1960 and 2000. They measured affordability by the proportion of income spent for housing costs. For example, they analyzed American Community Survey data, dividing the sample into quintiles by income distribution, to explain that rent as a percentage on income, for the lowest and second lowest quintiles have shifted from 47% to 55% and 23% to 29% respectively from 1960 to 2000. Looking at the same quintiles, the percentage of renters devoting more than 30% of their incomes to rent shifted from 62% to 79% and 21% to 44% respectively. The other three quintiles changed very little during the period (Quigley and Raphael, 2004). While the change in the lower quintiles showed a vast decrease in affordability, it may speak more to income inequality. However, they then looked at the percentage of rental stock affordable to household income quintiles, which suggested a lack of available housing supply for lower income households. They found that the highest three income quintiles during the period have been able to afford 90% or more of the available rental stock. The second lowest shifted from 65% in 1960 to 50% in 2000, and the lowest quintile shifted from 13% in 1960 to 7% in 2000.

Measuring regulation effects on housing supply

To measure the effect of regulation on housing supply, one could count the denied development projects in a city or county during a prescribed period. However, the denied projects would not capture the breadth or depth of regulation within a jurisdiction. Regulation can also create prohibitive costs without directly prohibiting construction (Gyourko, et al., 2008).

According to Gyourko, et al.:

The proliferation of barriers and hurdles to development has made the local regulatory environment so complex that it is now virtually impossible to describe or map in its entirety. (p.694).

No measure exists that can exactly measure the impact of regulation on the housing market. However, Gyourko, et al., (2008) developed a tool intended to gauge how the local people, processes, and state-level policies affect project approval outcomes. They referred to it as the Wharton Residential Land Use Regulation Index (WRI) and it is a set of indices measuring the intensity of the regulatory environment (nine local regulation indices and two state-level indices).

Three studies I looked at, assessing regulation impact on housing supply and affordability, used the Gyourko, et al., (2008) index. Saiz (2010) used the index in conjunction with geographic land availability metrics to develop a conceptual framework relating land availability to urban growth, and housing prices across regions and over time. Paciorek (2013) used the index to compare MSAs by interacting the WRI results with house price data, new housing investment data, housing density and geography data, real cost of construction (excluding regulatory and land cost), and exogenous demand equilibrium shifters (changes in local demand for labor and migration levels). Kok, et al., (2013) similar to Saiz (2010) measured the regulatory environment with economic and geographic determinants of land and housing prices. They looked at regulatory impact using a variant of the index, including difficulty of obtaining permits

or zoning changes. Moreover, unlike Saiz (2010), Kok, et al. (2013) measured impacts within a region, surveying 110 jurisdictions in the San Francisco Bay Area.

Malpezzi (1996) used an earlier variation of the Wharton index with seven measures of city-specific regulatory environment including changes in single-family housing projects approval time (in a prescribed time period), time between rezoning application for residential subdivisions and permit issuance, acreage of land zoned for single-family/multifamily housing, percentage of zoning changes approved, and a scale for adequate infrastructure. For state-level regulatory environment measurement, the Malpezzi (1996) model used the *Survey of State Land Use Planning Activity* developed by the American Institute of Planners in 1976. The state level measures were dummy variables looking for the presence of statewide comprehensive planning, coastal zone management plans, wetland management regulations, floodplain management, designation of critical land use planning locations, enabling legislation for new towns, requirement for environmental impact reporting, and regulations giving the state power over local regulation for development of statewide importance. Malpezzi (1996) applied the model to Sacramento and 55 other cities across the United States. Sacramento scored higher than all but San Francisco and Honolulu on the city-specific regulatory index, highest on the state-level index (like all other California cities, tied with Minneapolis, Minnesota), and had a higher census median house value than all but nine California and northeastern coastal cities (Malpezzi, 1996). Gyourko, et al. (2008) compared states for regulatory strictness with their WRI form revised (see Appendix A) from the version Malpezzi (1996) used, which considered additional state executive, legislative and court activity. California ranked number nine, with over one-half standard deviation over the mean regulatory strictness, coming in behind number one Hawaii, six coastal states in the northeast, and Washington State. Saiz (2010) applied the revised WRI (Gyourko, et al., 2008) at the MSA level while considering geographic constraints (steep slopes and water

bodies). He ranked MSAs by the percentage of undevelopable land and found eight of the top 25 in California. Seven of the top 25 had a WRI under the mean—New Orleans, Louisiana, coming in at number four most undevelopable, was least regulated in the sample with 1.24 standard deviations below the mean. Those seven MSAs below the mean were all in the south or Midwest. The remainder of the top 25 in undevelopable land were all along the east coast except Seattle and Milwaukee (Saiz, 2010). Unfortunately, the study did not capture Sacramento data, as the WRI survey respondents were International City Managers Association members, which may have excluded the MSA (Gyourko, et al., 2008).

Geographical constraints

The economic concept of housing supply reflects forces constraining the development of new housing in regions. Most metropolitan areas throughout the country have elastically supplied housing simply by zoning more land for development. However, in addition to regulations, the geography of most California regions constrains the location of new housing. Saiz (2010) proposed that as land availability decreases, so does price sensitivity to demand shocks. He tested this by using GIS data and the US Geological Service satellite-based geographic data and Digital Elevation Model tool to assess exogenous levels of undevelopable land.

Implications of unaffordability

Chakrabarti and Zhang (2014) said that unaffordable housing could adversely affect local economic growth by making the area less attractive to businesses and low- and medium-wage earners. Their study measured affordability, education, and population, controlled by electricity prices and amenities, to gauge these variables' effect on local employment growth. Simply put, increased prices because of housing supply constraints disproportionately affect lower-income households (Quigley and Raphael, 2004).

Lower-income households could be low-skilled working families, young families with the primary earner at an entry-level in the workforce, or immigrant families with little knowledge of employment opportunities. As housing prices rise, low-income households devote a larger percentage of their incomes toward housing costs, relative to wealthier households. However, Smith, et al. (1988) notes that we typically measure prices in the housing market by transactions or services. Existing owner-occupiers pay housing services transactions to themselves in the form of rising equity (assuming prices rise at or above the inflation rate). If they have a fixed mortgage rate, they are unaffected by rising prices. Renters pay housing property owners for housing services temporarily. When they move, the rise or fall in housing prices will dictate their new cost of housing services. New entrants into the housing market will pay housing services to an existing owner selling the house. They too are subject to movement in housing prices. Because lower-income households have a greater probability of moving (Smith, et al., 1988), they absorb more of the burden of price increases and perhaps enjoy the relief of price decreases.

Definition and metrics summary

In summary, academic evaluation of housing affordability expands on the federal 30% of income devoted to housing costs standard. Using the 30% threshold as a proxy, they developed methods to explain that housing prices rely on the relationship between supply and demand. Further, they sought to measure the determinants of both. Many studies have linked housing supply shortages to land available for development. Clearly, geography plays a part, but the role of regulation has been much more difficult to explain as many studies have relied on the Wharton Residential Land Use Regulation Index as a data collection tool for the examination.

I sought to learn how jurisdictions define housing affordability and whether they think it is a problem. I wanted to understand if and how they measured affordability. However, I am still

unclear about who the low- and very-low income households are. Therefore, I asked my interview respondents attempting to answer this question from their perspectives.

Regulations Affecting Housing Supply and Affordability

Regulatory constraints on housing supply come in a variety of forms. Gellen (2014) referred to “legal, political, or institutional limits on the utilization of the major inputs in housing production—land, labor, capital, infrastructure, and public services,” (p. 3) as major limits on new housing developments. These regulations often occur in cities and counties in the form of zoning standards, subdivisions, and construction permitting. In more detail, local policies include open space requirements, height restrictions, minimum lot sizes, historical preservation, limits on permitting, and farmland preservation (Sowell, 2009). Why are these regulations needed? Are they effective? The economics of regulations could provide some insight.

Economic theory of regulation in housing markets

When I think of regulation, I tend to think it punishes or restrains an activity harmful to the public welfare. Regulations certainly protect the public welfare, but the questions, with respect to housing, is who the public is, and what is the welfare? Housing is an important aspect of life because it represents security, personal expression, and a source of wealth or as Gellen (2014) called it, “a commodity” (p. 4). While housing provides these elements of private utility, it is also creates an extensive network of services, catering to private and social prosperity. Services to create and repair roads, parks, and schools, police and fire protection, and location near employment opportunities all create desirable social neighborhood environments and thriving economies surrounding housing (Gellen, 2014).

Perhaps regulating a housing market generally intends to raise prices, in theory, to prevent or reduce perceived negative externalities of housing development. Regulation either stops the externality from happening, or requires more spending to mitigate it. The increased

prices should force consumers of housing to internalize externality costs, when the social cost of housing grows beyond the current private cost. Malprezzi (1996) considered these externalities to include congestion, environmental costs, infrastructure costs, costs arising from increased demand for services, and existing owners' perceived cost of neighborhood deterioration when new households enter creating heterogeneity in the neighborhood. Most often, regulations restrict the supply of housing, which has the effect of increased prices, assuming constant or increasing demand. Relying solely on economic theory for justification for regulation may ignore the problem of affordability as prices seek to correct market failures rather than establish affordability.

Perhaps market correction and affordability are opposing forces, one undoing the other. Nearly all of the literature about housing affordability builds models assuming that the market is moving toward an equilibrium. Equilibrium is the point where supply and demand converge at a market-clearing price. Glaeser and Gottlieb (2009) introduced the spatial equilibrium model where labor, employers, and homebuilders work, employ and build at equilibrium respectively over the span of a metropolis. Spatial equilibrium implies that while prices within an area (or across regions) may differ, the rise in one area will naturally offset the decline in another. Another variation is Matlack and Vigor (2008) who employed partial and general equilibrium models to show how income inequality relates to housing affordability. The former (partial equilibrium) split high and low socioeconomic (SES) groups and assuming homogeneity in housing differentiation, while the latter (general equilibrium) expanded the model to allow housing quality differentiation, which is expected. Their models used the GINI coefficient as a predictor for inequality and MSA and time fixed effects. The partial model showed that if housing is undifferentiated (with controls for household size, education, and race and sex of head of household), then income inequality in any form exacerbates housing unaffordability and lower

living standards for low-SES households with lower disposable income and more crowding within the home (assuming inelastic housing supply and housing as a normal good). However, with housing differentiated by size and quality, an income increase in the 90th percentile, with constant income in the 10th percentile, low-SES households simply responded by consuming less housing to avoid an increase in housing costs. Although, both models were highly dependent on the level of slack in the local housing market as effects are much less significant in areas like Detroit where lower housing cost due to vacancy rate offset loss of income in the 10th percentile (Matlack and Vigor, 2008).

The differentiated housing market findings in the Matlack and Vigor (2008) study are important to my study because it implies the economic effect of filtering (Matlack and Vigor, 2008, p. 8; Quigley and Raphael, 2004, p. 205; Smith, et al.1988, p. 46). Filtering happens when new housing available in the local market becomes desirable to high-SES households, thereby increasing supply of older, lower quality housing, creating affordable options for low-SES households. Somerville and Holmes (2001) used American Housing Survey data from 1984 to 1994 to build a time-series model that looks at the movement of housing into and out of affordable status at the MSA level. They found that the prominence of filtering depends on neighborhood conditions (ratios of rental units, percentage of African American heads of households, public housing as a percentage of rentals, and age of units). The Somerville and Holmes (2001) study essentially uncovered the gentrification demand characteristic (covered later in this review), that Smith, et al., (1988, p. 46) called “a sort of reverse filtering,” which can diffuse the benefits of filtering when new housing development is constrained (Vigdor, 2002; Quigley and Raphael, 2004). Affordable units in better neighborhoods are at most risk of filtering upward, or gentrifying, which suggests local policies that encourage affordable housing may be

misaligned with those that promote neighborhood diversity (Somerville and Holmes, 2001). I discuss gentrification in more detail later in this review.

Risk, perverse incentives, and housing supply

One way that regulation can affect the supply of housing is by adding risk to the private decision to build. The generally accepted definition of regulatory risk is the degree to which regulation can alter the level of cost of development through increased uncertainty of approval outcomes and future residual values. Mayo and Sheppard (2001) developed this concept into their theory of stochastic development controls. They used a typical development cost function accounting for time and speculative value of two development alternatives under two different states of certainty. With a quadratic estimate, they tested the effects of random changes in planning delays, noting that increasing uncertainty in planning approval adversely affected housing supply.

Some literature looks at the interesting phenomenon where government intervention designed to create more affordable housing, fails to do so. Titman (1985) found, using a simple land value model, that government initiatives intended to promote housing construction often stymie development activity by creating uncertainty about future residual value (assuming vacant land generates no costs or benefits). The initiatives then created the perverse incentive to hold land vacant, suggesting an arbitrage situation. The Titman (1985) finding is somewhat consistent with the Ryan and Enderle (2012) where their model estimated the effectiveness of the California density bonus program (a voluntary participation program) intended to promote construction of affordable housing in high land value areas giving low-SES households access to the amenities of high land value areas. The outcome resulted in clustering of affordable housing in low land value areas, presumably as arbitrage against the higher cost of more building on more valuable land. The Ryan and Enderle (2012) study also included interviews with local housing officials who

noted the decision of where to build took into account the cost of political opposition to affordable housing. Uncertainty in California is likely higher than most places given the price volatility discussed and local preferences to exercise growth controls. Levine (1999) looked at 1988 and 1992 survey responses of jurisdictions asked about their provision of affordable housing development incentives. These incentives included development encouragers such as density bonuses, fast track permitting, city block grants, redevelopment funding, and development fee waivers. He noted that 73% of jurisdictions had at least one incentive available, but with no significant relationship to net housing change.

Zoning and permitting effects on housing supply and affordability

City and county officials use zoning standards and other permitting tools to limit or expand development opportunities. Levine (1999) discussed some earlier views on the conditions encouraging growth controls in California surrounding population growth, declining funds for infrastructure, people shifting to the peripheries of metro areas, and communities with a growing distaste for low-income and minority populations. Levine (1999) examined the strength of significant negative correlation between enactment of specific growth control ordinances and the change in housing stock from 1980 to 1990 with a time-series estimation model. He found that rezoning of residential land to farmland had the strongest negative relationship to housing stock. He also found that rezoning to lower-density development had similar significance, albeit at a lower magnitude. Rezoning commercial or industrial land to less-intense use development and height limits on commercial or office buildings also had significant negative effects; perhaps, because less dense commercial required less housing because of fewer employees. Levine (1999) found a significant negative correlation between the presence of growth-control ordinances in a jurisdiction and the number of families, rented units, owned units, new homeowners, and Hispanic, African American, and other non-white populations. He found a strong significant

positive correlation between growth-control and home values; so much so, that the increase in home value was stronger in correlation than the decrease in Hispanic and African American populations combined, and nearly as strong as the decrease in all the others combined. The Levine (1999) findings show that growth-control enactments were clearly good for the homeowners, but a burden for all others.

Glaeser, et al., (2005) proposed that the local planning authorities must weigh not only the costs and benefits of zoning alternatives, but the politics of permitting specific projects. Zoning limits on housing results in costs consisting of higher prices and misallocation of labor and benefits from internalization of construction-related externalities (Glaeser, et al., 2005). Fischel (1990) claimed that zoning is effective only among political equals and that zoning disputes featuring one dominant political force, such as a group of existing homeowners, will usually favor the dominant, especially in the low-density suburbs.

Inclusionary zoning to increasing affordable housing

The most widely known tool to promote affordable housing are inclusionary zoning programs. These local programs can either promote voluntary development of affordable housing or make it a requirement. Housing developments under inclusionary zoning must build a percentage of units for sale at below-market rates. Voluntary programs offer an incentive to participate, required programs make designating a portion as affordable units mandatory. Talbert and Costa (2003) reviewed a myriad of court cases involving the constitutionality of inclusionary zoning. They explained that developers have sued over the idea of taking property and the constitutionality of requiring developers pay fees to build affordable housing trust funds. Court rulings defeated most efforts, putting a stamp on inclusionary zoning as a permanent practice.

While much of the research on inclusionary zoning has been descriptive, some studies have attempted empirical approaches. Schuetz, et al., (2011) used a reduced-form panel

regression model including characteristic variables for inclusionary programs, housing prices, permit data, and typical supply and demand factors to determine the impact of inclusionary zoning on the number of affordable units produced. Their model looked at 55 jurisdictions in the San Francisco Bay Area and showed a statistically significant positive relationship between the number of affordable units and time since the inclusionary program adoption, the presence of a density bonus, and the presence of a minimum unit requirement. The magnitude was highest with the time since adoption; as a 1% increase in affordable units was associated with a 1% increase in time since adoption. The density bonus had nearly the same magnitude. When they looked supply and demand factors (omitting the inclusionary zoning variables), they found that a 1% increase in affordable units correlated with smaller increases in African American population and the percent of jurisdictions in the area with inclusionary zoning. They found a 1% increase in affordable housing to correlate with a 0.3% increase in stronger growth controls. This result is interesting because it suggests that strong growth controls helps create affordable housing. Notably, there was a significant negative correlation between affordable units and units built with the Low Income Housing Tax Credit, which Schuetz, et al., (2011) thought could be due to substitutability. Combining the market forces and institutional inclusionary zoning factors, they again find strong significant correlations. A 1% increase in affordable units correlates with a 0.9% increase in time since adoption and a 0.75% increase in the presence of density bonus. However, with this model, they find that a 1% increase in affordable units has a negative relationship with housing built for the very low-income population, showing that 0.7% less very-low income households can afford housing. The data and results in the Schuetz, et al., (2011) presented an interesting notion that time and density bonuses make inclusionary programs more effective at producing more affordable housing. The surprising finding is that the construction of affordable units, considering supply and demand, made it harder for very-low income households

to secure housing. This finding may suggest another connection with income inequality, but it likely also means that the supply of affordable housing is still a problem. If more households are dropping into the very-low income segment, then the next problem to grapple with will be if prices set for affordable housing is affordable enough.

Regulation and supply summary

After reviewing the literature about the effect of zoning on housing affordability, it seems clear to me that all the benefits seems to always concentrate with homeowners. I found that zoning leads to higher home prices and greater racial segregation. I see the NIMBY notion practically everywhere when looking at housing affordability issues and perhaps there is unquantifiable truth to the notion. Do homeowners deserve to receive more of the benefits? Arguably, they have contributed more or encumbered greater costs by their effort to secure their status. On the other hand, is this a zero-sum game question? Does the success of homeowners impede very-low income households from finding that path? To that end, I found that inclusionary zoning creates more affordable units, but not for the most vulnerable, perhaps those that need it the most.

Reflecting on this section devoted to how regulations affect housing supply and affordability, I consider some questions that will strengthen my interview research. First, I will consider the economic question of how regulation reduces the effect of housing externalities. If prices are a manifestation of internalizing externalities, do prices equitably distribute the external cost? Next, I considered questions about the effects of zoning and permitting. The literature suggested one of the main deterrents of increasing housing supply is the developer uncertainty because of unpredictable rezoning and permit approval times. I asked about this problem to understand if there are specific reasons for time delays and about the sources of time variation. In addition, 14 out of 33 jurisdictions (8 counties and 25 cities) in the Sacramento region have

adopted inclusionary housing programs; the City of Sacramento's program is 15 years old. I would ask about the results of inclusionary zoning. Gyourko, et al., (2008) noted that heavily regulated areas (those with high WRI values) all had multiple pressure groups interested in land use controls. These questions, following with a discussion with local officials might provide some data to compare pro-growth and anti-growth jurisdictions.

Public Policy and Demand Spikes

This review has primarily focused on supply-side related issues affecting housing affordability, but for this last section, I look at demand. After all, supply issues surface when demand either outpaces or falls short of supply. Government actions and policy can affect demand. One way is through subsidies. Smith, et al., (1988) reminded us of the debate about intervening in the housing market to reach a standard by which all Americans have "decent housing in suitable living environments" (p. 41; also Truman, 1949). On one side of the debate, critics say that government involvement creates unfair distribution and an inefficient distribution of housing and income according to risk versus reward. The other argument is that all people should have a minimum level of housing. Politicians and advocates often argue for a minimum level of housing, but I could not find a specific standard. Smith, et al., (1988) called it specific egalitarianism that considers housing a special exception among the efficiencies of markets. One might consider the value of housing assistance subsidies and welfare entitlements, the combined value of "money for nothing" as the minimum guaranteed level of housing.

Factors and consequences of demand equilibrium shifts

I have discussed some of the literature associating growth control regulations to inadequate supply of housing and higher prices, but now I will look at the effects on demand and some common characteristics that shift demand. Regulations can raise prices, but they can also create desirable places or improve the quality of life of residents (or specific area residents).

Cho (1997) explained that establishing growth restrictions and boundaries create endogenous social costs and benefits. The benefits are amenities and include green spaces, consolidated services and infrastructure, prevention of excessive leapfrogging land consumption, and reduction or prevention of longer commute times. As these amenities increase in the jurisdiction, housing prices will rise as people seek to enjoy them. Areas without restrictions can experience rising housing prices as the location demand effect draws people to the locale. In other words, as the demand for the land and amenities increase (population increase), so does the level of congestion. Amenity seekers may not find housing within the jurisdiction, but may locate close enough where they can still enjoy the amenities. This proximity of location gets back to the spillover concept and the cost of boundaries and controls, which Cho (1997) considered crowding of amenity usage and affected public services. Because of the political environment in which public planning officials operate, they are slow to react to population surges. The spillover might occur and planning officials avoid the need for infrastructure services provisions because of political opposition to providing a means for increasing population. Perhaps because amenities and capital improvements intend to stabilize some intended level of population and consumption. To explain typical land consumption with amenities, Cho (1997) established an optimization function (with no growth boundaries) by including individual budget, level of amenity benefit, and amount of land zoned for residential use and home value for the demand side utility function. He included (considering land rent from the proprietor at the opportunity cost against agricultural use) the value of the capital investment, population density, and land availability on the supply side of the function. He noted that the optimum level determines the level of congestion tax, an externality cost consistent with Smith, et al., (1988), levied on all that would consume the land and amenity. Cho (1997) asserted that with the absence of congestion tax, the cost of congestion is a new upward-shifted rent schedule (or housing cost). The effect of adding growth restriction

results in higher population density, which then erodes amenity quality because of over-consumption and congestion.

Aside from regulation controlling demand, the desirability of neighborhoods has a major influence on house prices and affordability. Can (1990) developed a hedonic model to explore neighborhood externalities using Multiple Listing Service data and U.S. Census housing tract level data. The model first identified hedonic housing attributes and property value variables. With an expansion technique, the model then attempted to consider neighborhood quality effects, normally considered fixed, by creating parametric drift equations that capture within and across neighborhood effects. Can's (1990) model accounted for regional dynamics in neighborhood characteristics that Cho (1997), Guerrieri, et al., (2013), Quigley and Raphael (2004), Smith, et al. (1988), Vigdor (2002), and Matlack and Vigdor (2006) got at in their discussions of filtering and gentrification. The Can (1990) model then arrived at a terminal model that attempts to resolve spatial autocorrelation and heteroskedasticity because of the clustering of similar housing within neighborhoods. With a significant positive correlation between neighborhood quality and housing value and attribute characteristics, he confirmed that marginal positive externalities increase in higher status neighborhoods. More importantly however, he also confirmed that the spillover effect explains house price variation, subsequently confirming that house prices increase in poor neighborhoods simply by their proximity to desirable neighborhoods (Can, 1990).

Demographic shifts and gentrification

As housing demand for any particular city increases, as in the case in a housing boom, average house prices increase in equilibrium, even when assuming no constraints to supply. As noted earlier, existing housing is durable and, relative to other goods, inelastic in response to demand shocks (Smith, et al., 1988; Paciorek, 2013; Quigley and Raphael, 2004; Guerrieri, et al., 2013). Much of the literature documented price increases across regions or cities; however, I am

interested in the shorter supply of literature that looks at price changes within cities, across neighborhoods. Guerrieri, et al., (2013) provided some insight on this as they study gentrification of neighborhoods and the positive externality of living near rich neighborhoods. They noted that in richer neighborhoods, crime tends to be lower; schools tend to be better because of higher parental educational attainment, direct expenditures, and parental involvement in their kids' education, and better neighborhood amenities. People are willing to pay more to live closer to these rich neighborhoods and the positive externality diminishes with distance from the rich neighborhood. The Guerrieri, et al., (2013) study used Case-Schiller zip code level price indices and neighborhood median house price census data to show that as housing prices increase with exogenous demand shocks, such as booms, poor neighborhoods closest to the rich neighborhoods gentrify, which increases prices in poor neighborhoods beyond. The demand shock creates further price appreciation and further affordability challenges, displacing, or pricing out low-income households from the emerging demographic shift of gentrified neighborhoods. However, does displacement because of gentrification place an unacceptable burden on low-income households?

Vigdor (2002) looked at gentrification from this perspective, analyzing the effect on low-income households, ignoring the positive externality approach. His approach was similar to Guerrieri, et al., (2013), but he used American Housing Survey data with census data over a metropolitan area. Vigdor (2002) argued that the data reveals little evidence of harm to low-income households because they can choose their living arrangement. He used a probit regression model to see if gentrification displaces low-income households in gentrified areas. When considering educational attainment level, as a proxy for low-socioeconomic status (rather than low-income), the trend significantly indicated less than majority displacement. When considering the positive externalities, in an area gentrifies, the low-income household has the choice of devoting more of their income to their current housing, also benefiting from a more affluent

neighborhood, with better schools' performance, cleaner public spaces, and reduced crime. Other low-income households might choose to relocate to a lower cost area, foregoing the positive externalities. Although, Vigdor (2002) did contend that the evidence left much room for omitted variable errors. He suggested future research look more at the underlying causes of gentrification, how revitalization affects housing costs for poor households and their willingness to pay for housing.

Demand summary

The Cho (1997) and Can (1990) studies reveal the challenges of determining and valuing externalities with changing demand and how to force internalization of the costs. First, restrictions on growth can transfer wealth, as in increased housing costs, to land proprietors unless congestion taxes eliminate the gains. On the other hand, that congestion could reflect negatively on the value of land, thereby eliminating the welfare transfer (Cho, 1997). Alternatively, the growth restriction could diminish optimal increases in amenity provision or have the long-run effect of shifting the equilibrium price to the point of reducing the population to correct the congestion externality. Can (1990) explained that prices are indeed a function of high-value amenities in an area. The spillover effect, manifested by demand, increases prices in nearby areas, which, as Vigdor (2002) explained, presents low-income households the option to stay and absorb the higher pecuniary prices in exchange for the positive externalities or relocate to maintain current level of pecuniary housing cost. Through the work of Guerrieri, et al., (2013), Matlack and Vigdor (2006), and Vigdor (2002), it is clear that a link between housing filtering and gentrification exists.

Literature Summary

This literature review organized previous research into three themes: academic definition of housing affordability, regulatory effect on affordability through housing supply, and demand

effects on affordability. By defining the concept of housing affordability, it also discussed the variety of measurement metrics. It covered the issues surrounding land use regulations that limit the supply of housing, which has a documented negative impact on affordability. The review also discussed the economic perspective on these restrictions. Land use restrictions are tools that increase housing prices to force the internalization of externalities incurred by increased development over the years and population increases leading to congestion, increased traffic, and air and water quality erosion. As some political leaders may consider housing an entitlement, the market often fails to reach equilibrium prices in the name of protecting vulnerable low-income populations by offering assistance to pay for housing where regulation inflated prices. This review covered some demand side issues that contribute to reduced affordability. Inclusionary zoning policies attempt to provide this housing solution, but there is only sparse evidence it actually produces more affordable housing. When developments occur (affordable housing or not), they appear to benefit higher socioeconomic households as filtering and gentrification appear to only provide options to consume less or pay more for low-income households. With demand shifting in response to national shocks, I wonder if any permanent and stable housing solution exists for low-income households.

In the next chapter of this thesis, I discuss a series of questions I used to provide deeper context to these issues. I used the questions to gain perspectives from Sacramento region planning staff and elected officials as to the state of regulatory and planning efforts to explain more of the affordable housing environment.

Chapter 3

METHODOLOGY

Some combination of housing market forces, demographic changes, and government intervention best explains the complex issue of housing affordability. Local governments are responsible for understanding and dealing with these elements, to mitigate housing affordability problems, among safety, health, and other general welfare priorities. This thesis explores the Sacramento regional housing affordability problem through the lens of local officials. I analyzed the problem by reflecting on their perspectives, previous research, publications from advocates, and media contributions.

The previous academic studies approached the housing affordability problem by analyzing nationwide or statewide data comparing states or regions. While those are important for looking at variances across these areas, making recommendations to deal with the problem are difficult because solutions begin with local governments given their land use decision-making powers. These studies tried to determine why housing becomes unaffordable. Most measured the effects of regulation on housing supply, some looked at geography and its relationship to housing supply, and others analyzed the effects of demand characteristics on housing prices. I did not find any studies that analyzed affordability within a specific region; therefore, my study looked within the Sacramento region, specifically at local governments. Most of those previous studies suggested that within-region studies would provide a better sense of the affordability problem. Local land uses characterize housing supply and demand and vary from region to region because economies, politics, and resources vary. Therefore, to provide exploratory research for the Sacramento region, I obtained perspectives from local officials in its jurisdictions through unstructured, open-ended 30-60 minute interviews.

Sample Description

My unit of analysis was jurisdictions in in the Sacramento region. Ideally, I would have liked to interview officials in all 34 planning jurisdictions (eight counties, 25 cities, and SACOG, the region's council of governments and metropolitan planning organization [MPO])¹ to provide robust findings. I had time and budget constraints for this thesis preventing me from achieving this ideal; therefore, my sample size arrived at eight interviews, accounting for six jurisdictions in the region.

While my sample size only accounts for about 18% of the population of jurisdictions, I feel confident that my sample represents the population well in terms of percentage of the population and size of jurisdictions. The responses I obtained provided enough thematic saturation to analyze and conclude with policy options. My sample included respondents from one county, three of the largest cities in the region by population (between 50,000 and 400,000 residents), one smaller city (fewer than 50,000 residents), and SACOG. Moreover, one respondent spent significant time in two counties and spoke on behalf of experience gained in each jurisdiction. All respondents qualified because of their relevant experience in planning or community development departments, or as elected officials. Many of the planning officials had direct experience in approving or rejecting development projects and developing general plan housing elements for their respective jurisdictions.

Human subjects review

To conduct interviews with relevant local officials, the Sacramento State University Department of Public Policy and Administration institutional review board reviewed my research design. The purpose of the review was to safeguard the Department and interview respondents

¹SACOG is *both* the MPO (for transportation planning & SB 375 purposes) *and* the COG (for housing planning purposes). Additionally, the Sacramento Housing and Redevelopment Agency (SHRA) administers the Sacramento City and County housing programs financing. The SHRA is a Joint Powers Authority created by the two jurisdictions in 1982.

from any possible damages regarding real or perceived psychological, economic, confidentiality, or privacy risks. To mitigate or nullify these risks, I kept names and affiliations of my respondents confidential.

Interview Questions

I developed the questions for this thesis to capture thematic data that I can analyze, building from the information presented in Chapters 1 and 2. I constructed seven questions, which fall into the three recurring themes of this thesis: 1) defining housing affordability, 2) regulations and housing supply, and 3) public policy and demand characteristics. I intended the questions to elicit a discussion about these themes rather than capturing structured survey-style responses. Most of the questions had follow on questions to enrich the discussion, to probe into the perception and attitude of jurisdictions regarding the themes. To avoid framing and steering the discussion, the question wording avoided implicit assumptions and left room for somewhat broad interpretation. The broad interpretability intended to allow the interviewee to decide how to answer, thereby indicating the perception and attitude toward the topic and themes.

Qualitative Data Analysis

Rather than capture and codify the responses I obtained to test a hypothesis, I compiled and synthesized the responses to form an exploratory analysis. I recorded each interview with a voice recorder and requested candid responses, assuring them confidentiality.

After collecting responses from each interviewee, I dissected the recorded material to assign particular statements to questions. Because the interviews were unstructured, content discussed for one question often spilled over into the discussion with other questions. Being unstructured, organizing the responses in themes proved challenging because the conversations were informal and at times went off topic. I did my best to mine through the recorded conversations to associate the related material to the appropriate question.

After compiling and synthesizing the interview responses, I reflected on the introduction and literature review to compare and contrast my findings with the academic research and the advocate and popular media perspectives on housing affordability. I organized my analysis by discussing my findings in Chapter 4 and explaining in Chapter 5 how my findings, along with academic and popular knowledge, come together in the region. Additionally, in Chapter 5, I offered recommendations for dealing with housing affordability in the Sacramento region, including further research and public policy. I discussed my findings using the same thematic structure that I presented my literature review: housing affordability definition, regulation and housing supply, and demand characteristics affecting housing affordability. I presented my conclusions by revisiting the housing affordability problem with respect to my findings in the Sacramento region. I assessed at what I found to be the essential elements of the problem including the stakeholders, the consequences of current regulations and financing policies, and the viability of affordable housing. Following my assessment, I offered three recommendations to help combat the housing affordability problem in the region and because housing, environmental and revenue generating laws link all regions in California, my recommendations apply universally in California.

Method Summary

My thesis explores the complex issue of housing affordability by reviewing popular perspectives and academic research providing the most current knowledge. Most researchers acknowledged the complexity and recommended more narrowly focused research, which is what my thesis provides. Moreover, they suggested that housing affordability varies depending on many economic and regulatory inputs. My hope is that my exploratory qualitative research leads to focused hypothesis testing using financial data and consideration by local officials to implement my recommendations.

Method strengths and weaknesses

The most glaring weaknesses in my method is the sample size and stratified areas of focus among respondents. Eight interviews might provide enough data to make preliminary conclusions, but I learned that local government organizational structure and demographics within local jurisdictions confounded the comparability of my findings. The focus of the responses depended on the area of responsibility. I spoke with a few planners and where one focused on long range planning, another focused specifically on the jurisdiction's housing element. A few respondents' primary focus was housing or special programs. Their responses also varied by what their work entailed, but they talked considerably about programs incentivizing or subsidizing housing developments and assistance for renters and owners. The elected official and planning commission member spoke broadly about the jurisdiction, mainly focused on constituency perspectives. All of these various perspectives provided me with a comprehensive look at the positions of stakeholders, but the disparate responses make the sample smaller. The areas of focus create stratified sub-populations among local officials. With more time and resources, a stronger analysis would include multiple responses from each area of focus. In other words, future research should collect responses from a few elected officials, long-range and short-range planners, commissioners, and other pertinent roles focused on housing and community development.

Rather than a weakness, the unstructured nature of response gathering with my method presented interpretation challenges, notwithstanding a stronger learning situation. I developed my questions somewhat ambiguous with the intent to allow the respondents to dictate how they wanted to answer the questions, rather than confine them to my own implicitly biased narrow questioning. I found that respondents often spoke globally, speaking on behalf of all jurisdictions rather than the specifics in their jurisdictions. On the other hand, the value I found from these

broad responses was the safe assumption that local jurisdictions all face the same issues in California. I have no doubt that if I were to increase my sample size, and allow for longer discussions, I would have found regression toward the mean, the phenomenon common in statistics.

One of the strengths of my method is that my findings can direct other researchers to new quantitative methods with local jurisdiction data. The literature that I read contributed to broad understandings of housing affordability, but my findings provided details about what local jurisdictions are doing, what is working, and what is not. A researcher looking to make policy recommendations based on quantitative data driven hypothesis testing can use my findings to develop variables, as explained in Chapter 5.

Another strength is that my findings provide a voice to the difficult-to-explain complexity of housing affordability at the local jurisdiction level. If local officials and other stakeholders read this thesis, they might come away with a better understanding of the complexity and that all stakeholders have a responsibility to do their part to deal with the problem. The perception of the problem often gets lost in the position of that person or entity, which leads to irrational biases. Therefore, the strength of this thesis removes bias barriers.

Chapter 4

FINDINGS AND ANALYSIS

In Chapters 1 and 2 I presented the perceptions of housing affordability from news media, advocates, and from the academic community, while in Chapter 3 I explained how I used the lessons from those sources to develop questions for another source, local officials knowledgeable in housing development. In this chapter, I synthesized my findings from the eight interviews (questions in Appendix C) to present the perception of housing and community development public officials in the Sacramento region on housing affordability. I organized my findings using the same themes found in the first two chapters. Each theme contains a subset of the questions that I used in my interviews. I informed each respondent that the interview would be a conversation and that I would extrapolate critical comments for comparing and contrasting jurisdictions in the region. With these similarities and differences, I looked for additional themes that link the themes of this thesis (housing affordability definition, regulations and housing supply, and public policy and housing demand effect). In each of these three themes, I summarized by explaining how the responses from Sacramento region officials relate to the lessons from advocates and academics. I used the thematic findings and analysis of this chapter to conclude in Chapter 5 with a discussion and recommendations on the housing affordability problem in the Sacramento region.

I ensured respondents confidentiality by withholding the name of their jurisdictions. However, I found that although all respondents had a stake in the housing affordability problem, they had varying perspectives because of their focus. Therefore, I listed the areas of professional focus and coded them below to associate responses with areas of focus:

Table 3: Respondents - List of Areas of Professional Focus

Respondent Code	Area of interest
<i>HPROGRAM</i>	Housing programs
<i>COMMUNITY</i>	Community development
<i>PLANLR</i>	Long range planning
<i>PLANHE</i>	Long range planning, housing element
<i>SPECIAL</i>	Special projects, housing programs background
<i>COMMISH</i>	Planning commission
<i>ELECT</i>	Elected official
<i>REGION</i>	Regional planning

Sacramento Region Housing Affordability Definition

When I think about housing affordability as it applies to me, it seems easy enough to define...can I afford it or not? However, defining housing affordability for everyone is much more difficult and depends on what we consider is affordable for a given household's composition and income. Reflecting on the definition supplied by housing and libertarian advocates, the definition depends on the purpose for defining it. Housing advocates consider housing affordability an issue of fairness. Widely, they believe that government should intervene so that low-income households can live in safe places where they have easy access to work, good schools, and only needing to pay 30% or less of their income. They also believe that unaffordable housing contributes to a stagnant economy because higher housing prices reduce disposable income. Those opposing government involvement in housing affordability say housing advocates have it wrong and that people make a living arrangement choice. This opposition also believes that raising taxes to subsidize affordable housing draws money out of the private economy. The idea that households make a choice to pay more than 30% for housing suggests that housing commanding 30% or less of a household's income exists. Can all households find housing to buy or rent with 30% or less of their income without assistance? Another perspective on housing affordability comes from the academic community, which looks at the issue through the research

lens. To research housing affordability, academics require a quantifiable definition. Therefore, some researchers refer to the broad area median household income over median housing price to explain the level of affordability in that area, while others look more closely using complex equations to determine the degree that regulations, the natural environment, and demand characteristics stimulate housing price volatility.

With this first theme, I described respondents' definition of housing affordability in the region. I asked what housing affordability means to housing and community development public officials and whether they think there is a problem. Additionally, if respondents gave a 'yes' response when asked if housing affordability was a problem, I asked them to tell me what they thought were the biggest drivers of the problem. The remainder of this section contains subsections that describe the response to question asked.

How do you define housing affordability in your jurisdiction?

I asked local officials to tell me how they defined housing affordability in their jurisdiction and a few themes began to take shape. I assumed that respondents would struggle with the question because of the abstractness of affordability. I wanted to see what jurisdictions focused on when confronted with the concept of affordability. Local governments' responsibilities are to ensure health, safety, and well-being of their constituencies. In the eight responses, the definition themes encompassed standard metrics, market conditions, and the concept of affordable housing. Most respondents mentioned both themes in their definitions with some variance in their justifications.

Five of the eight respondents (HPROGRAM, PLANLR, PLANHE, SPECIAL, REGION) defined housing affordability citing the standard metrics used by media, advocates, and academics. Those five respondents defined housing affordability as 30% or less of income toward housing costs and they expanded on their definition. All five said that they use the 30% threshold

to determine the percentage of households that can afford the local median house price or rent. Three of those five (HPROGRAM, PLANLR, PLANHE) said they considered the 30% threshold in conjunction with the definition of low-, very low- and extremely low-income households; identifying households earning the applicable percentage below the regional household income median. Two of the three (PLANLR, PLANHE) referred to the low income groups because these groups have been the focus of affordable housing developments. PLANLR explained that increasingly, only households above 120% of the area median household income have been able to purchase houses, as opposed to renting. Rents have gone up because many higher income households preferred to rent, a consequence of price volatility. Moreover, higher-income households have purchased affordable housing, placing the moderate-income households in the discussion of the housing affordability problem. PLANHE noted that while the private housing market has dictated affordability, it has not produced housing that is affordable for very low- and extremely low-income households. The response did not offer much clarity as to whether developers *cannot* or *will not* build this type of housing. I assume the latter as developers' decisions to not build likely rest on gap analyses that reveal sizable differences between desired and forecasted profits. Why build in the Sacramento region when a project requiring similar resources can yield desirable profits elsewhere? Moreover, PLANHE explained that the fee structure associated with new housing development in the jurisdiction intended to mitigate the lack of opportunities for very low- and extremely low-income households, but it also forces new homeowners to pay their way into desirable communities as fees are absorbed into the selling price. HPROGRAM referred to the low-income categories, but with respect to housing assistance programs both for the degree of tax credits for rental developments and down payment assistance for buyers. COMMUNITY, COMMISH and ELECT did not mention the standard metrics, which is understandable. These respondents' areas of focus were higher-visibility as executive,

commissioner, and elected positions. Their responses were more abstract than professional planners, with broader societal explanations of affordability, remaining consistent with their area of focus.

Six of eight respondents (COMMUNITY, PLANLR, PLANHE, COMMISH, ELECT, REGION) included broad housing market characteristics in their definitions of housing affordability. All six stated subtle or overt comments pointing to ability to pay as an important, albeit intuitive element of housing affordability. PLANLR, PLANHE, and REGION qualified their definitions of housing affordability by acknowledging that households' ability to pay has fluctuated with recessionary conditions. REGION recognized that most low-income households pay upwards of 50% of their income on housing costs, while PLANLR and PLANHE noted that the recession lowered house prices, improving the perception of affordability, but other economic problems (unemployment, debt) kept low prices irrelevant. COMMUNITY defined affordability as affecting all income levels, making a distinction between general housing affordability and that of housing developed by federal and state funding programs. COMMISH challenged the notion that housing affordability was the real problem, favoring the degree of income growth and social mobility as the true definition of affordability. Additionally, COMMISH noted that people often fuse the concept of affordability with the notion that housing should be cheap or that households are entitled to housing – a right missing in the United States Constitution. COMMISH and ELECT included housing supply in their definitions. ELECT referred to affordability as a function of changing housing supply, while COMMISH noted the disparity between current reality and the concept of housing affordability as defined by post World War II officials, dealing with open prairies and a seemingly endless supply of land.

Affordable housing is a concept that caused some confusion in my interviews. Through nearly all of them, I felt I used the phrases 'affordable housing' and 'housing affordability'

interchangeably. As respondent COMMUNITY discussed the overall economic issue that affordability presents to all income levels, I realized the distinction between the two concepts. Affordable housing is the housing solution relating to only the low-income levels, whereas housing affordability is relational and perceptible, somewhat philosophical. All eight respondents spoke of affordable housing as that which requires subsidy of one form or another to produce. The distinction between the two phrases is important because for this thesis, they complement each other as housing affordability has a regressive effect. The lower the income, the more housing affordability becomes a problem for the individual household. Affordability goes beyond a macro economic issue where the household has less disposable income for other economic sectors; it challenges the ability to provide shelter, for survival in extreme cases. On the other extreme, a billionaire might call a million dollar house affordable, the billionaire would likely not classify that house as affordable housing. Somewhere in the middle, an affordability problem forces low-income households to move to more affordable areas, often far from where they would choose, or into affordable housing if they can find it.

Is there a housing affordability problem in your jurisdiction? If so, what are the drivers of the problem?

After asking the respondents what housing affordability meant in their jurisdictions, I asked them to consider their definition and tell me whether they thought there was an affordability problem and why (or why not). I expected all respondents to say a problem exists and to associate housing supply and economic conditions as drivers of the problem. I also expected them to stay mum about locally originated regulations while criticizing state and federal regulations because of a rational self-serving bias and because the federal/state/local division of government in the United States creates exclusivity among jurisdictions. Not surprisingly, all eight respondents said they believe housing affordability is a problem. I discovered three major

themes in their explanation of the problem: Construction economics, income/jobs, and regulations. I separated construction economics and regulations, but the two are closely related.

The prominent theme I found in the responses is construction economics. I define construction economics as the typical homebuilding market characteristics including costs (labor, materials and fees), housing quality, demographics, and location. The cost of land is another construction economics element that local governments manipulate with zoning policies and regulations. With these policies and regulations, local officials determine the availability of land for housing, thus affecting the price. All eight respondents explained the variety of effects construction economics have on housing prices. Seven of the eight (all but ELECT) respondents said that the cost of construction either inflates the selling price or discourages building. Those costs include that incurred because of zoning and building code requirements. Six respondents (HPROGRAM, COMMUNITY, PLANLR, PLANHE, SPECIAL, REGION) referred to affordable housing and the profit margin gap. HPROGRAM and COMMUNITY explained that affordable housing construction relies on subsidy, which has become highly competitive due to limited availability. REGION added that developing affordable housing is so complex that market-rate housing builders do not understand the nuances of government housing subsidy programs well enough. The complexity has propelled the market of builders specializing in affordable housing. Those builders mastered the process of applying for and securing public funding. COMMUNITY confirmed, mentioning that many builders specializing in affordable housing have crowded the public funding applicant pool; however, with limited funds, only so many projects receive funds. COMMUNITY, PLANHE, and SPECIAL identified the reduction in federal funds and the end of redevelopment agencies as key factors for increased competition for the remaining subsidies.

Surprisingly, only half (PLANHE, SPECIAL, COMMISH, REGION) mentioned development fees as a major driver. COMMISH explained that the development fees, typically per unit, affect affordability by inflating the selling price (fees passed on to buyer) and by discouraging the builder. Builders tend to build fewer units if they think they will have a hard time selling all units at the inflated price (PLANHE, SPECIAL, and REGION echoed this response). The fewer units translate to undersupply.

Four respondents (COMMUNITY, PLANLR, SPECIAL, REGION) mentioned the infrastructure exactions as a major driver of affordability pressure. Developers must usually build roads, sewers, and wastewater systems before obtaining permits to build housing. REGION added that infrastructure requirements for infill developments in older areas could especially hinder their viability because major overhauls could stretch well beyond the immediate area. PLANLR said infill infrastructure could mean converting from industrial to residential use, which usually kills development plans. Moreover, nexus studies, which determine the impact the development causes, can add all or some of the costs for traffic mitigation, new schools, and hospitals because of additional people inhabiting the area. SPECIAL explained that developers look to the jurisdictions general fund to help with these costs, but the reality is that with a tight budget, local officials would have to take money from public safety or other popular municipal services. PLANLR similarly explained that in other states, local governments could simply raise property taxes to pay for infrastructure upgrades for infill projects. Local governments in California cannot so easily raise taxes because of Propositions 13 and 218. Proposition 218 restricts jurisdictions from increasing water or sewer rates to pay for infrastructure because those revenues can only benefit the existing ratepayers, not expansions or improvements to accommodate new housing. COMMUNITY suggested that the more infrastructure needed to support housing where people have to drive long distances to work, the more the cost of housing increases. The public money

needed for continuous upkeep and operation of ever expanding infrastructure is an opportunity cost. If development were vertical instead of sprawling there might be less to maintain, potentially freeing up funding to support additional housing.

Housing quality has an interesting effect on housing affordability in the Sacramento region because it has always caused mobility, shifting investment in amenities, changing the social setting of neighborhoods. Five of eight respondents (HPROGRAM, COMMUNITY, PLANHE, SPECIAL, COMMISH) mentioned that new housing developments typically produce houses that are much bigger, with better features than older houses, commanding higher prices. Houses that are more expensive attract higher-income households that require fewer municipal services. This type of planning is consistent with the Mischynski's (1986) fiscalization of land use – local governments do not want to have a developer build small homes that may house a family of six because property taxes paid will not cover the cost of local services provided to those residents. Build large homes with three residents and property taxes do cover those costs. PLANHE and COMMISH talked about poor quality houses built after World War II that contributed to families selling and moving to newer, better built houses. As those low-quality houses deteriorated, higher-income households chose to move to new houses rather than invest in the smaller, low-quality homes. Low-income households moved into those aging houses while community investment followed the higher-income. The cycle has perpetuated affordability challenges because developers recognize that households that can afford new houses will not want to live there. COMMISH suggested that before World War II, people built houses with livability in mind. Since then, developers have cranked out houses with the automobile in mind; with the idea that people would drive to spend time outside of the house.

Five of eight respondents (HPROGRAM, COMMUNITY, SPECIAL, COMMISH, REGION) mentioned that jobs and income have a major part in the housing affordability

problem. COMMUNITY, speaking in terms of community development, stated that while housing advocates focus on affordable housing, they often overlook the need for diverse housing types within neighborhoods to satisfy the needs of diverse socioeconomic communities. Further, that jurisdiction focuses on the challenge of providing estate housing, quite the opposite of affordable housing. Without expensive housing on large lots, the jurisdiction fails to attract large business owners to move in. While affordable housing provides for the low-income workforce, without attracting business entrepreneurs, the prospect of social mobility diminishes. HPROGRAM acknowledged that businesses within the jurisdiction did not pay enough for employees to buy or rent in the jurisdiction. On the other hand, COMMUNITY and SPECIAL recognized that without sufficient jobs in their jurisdictions, households work and spend much of their discretionary income in other jurisdictions taking tax revenue from the general fund. Another reality encouraging the fiscalization in land use decision-making. REGION mentioned that jobs, like infrastructure has killed housing developments because without the right jobs balance, jurisdictions cannot justify building new housing.

Four of eight respondents (PLANLR, SPECIAL, COMMISH, ELECT) referred to regulations as a driver of the affordability problem. PLANLR highlighted how building codes drive up prices, requiring, for example, certain equipment installed to meet energy efficiency standards. SPECIAL and ELECT spoke about state mandates, specifically CEQA, adding cost through environmental reviews and the risk of uncertainty. COMMISH expressed that the inclusionary housing ordinance, though well intended, had the consequence of choking the supply of housing, causing calculating developers to reduce their total unit production to reduce the number of affordable units they would be responsible for building. Many developers subjected to

inclusionary housing were market-rate housing developers and did not have the expertise to build affordable units.²

Housing affordability definition summary

Similar to what I found in the literature, housing affordability is hard to define. Conducting the interviews, I realized that respondents' definitions resembled the perspective of their area of focus. The combination of their responses offered a comprehensive look at the problem. The aggregated local officials' responses also resembled the Raphael and Quigley (2004) definition, which included the housing type distribution, income, borrowing capacity, public policies affecting housing markets, local market conditions, and housing consumption choice. While construction economics, income and jobs, and regulations might appear like independent themes, they complement one another in the broader theme of funding community development failures. Jurisdictions understand that the ideal level of affordability is households devoting no more than 30% of their income toward housing costs, but with constrained budgets and competing needs, that ideal is lower priority than favored local expenditures such as public safety. As people move freely between jurisdictions, they can live in one, work in another, and shop in yet another, land use planning in one of those jurisdictions must be daunting.

Regulating Housing Development in the Sacramento Region

Like all regions in California, local governments in the Sacramento area regulate housing as part of the larger regulation of land uses established by their general plans. However, compared to other aspects of land use decision-making, the state statute highly controls the contents of housing elements and the Department of Housing and Community Development reviews each one because "housing is a matter of statewide importance and that cooperation

² This interview occurred before the California Supreme Court ruled in *CALIFORNIA BUILDING INDUSTRY ASSOCIATION v. CITY OF SAN JOSE (AFFORDABLE HOUSING NETWORK OF SANTA CLARA COUNTY)* (2015) Ct.App. 6 H038563, which upheld the use of inclusionary housing ordinances.

between government and the private sector is critical to attainment of the state's housing goals” (Governor's Office of Planning and Research, 2003, p.61). While the statute (Government Code §65030.1) grants continued control to the local level over the future growth through planning and regulation, the statute also requires identification and demonstrated effort to reduce regulations that might hinder housing development (Government Code §65583(a)(5)). The statute also requires public participation (Government Code §65033) in the planning processes including local general plan amendments (zoning changes, subdivisions, and other land use ordinances) and the Regional Housing Needs Assessment fair share housing needs allocations to jurisdictions. Many respondents mentioned regulations in their description of drivers of the housing affordability problem in the Sacramento region. Because the literature focused mainly on how regulation affects housing supply, I focused my questions on regulatory impact on project approvals and public participation in housing development outcomes.

Housing development project approval delays

I could have asked an endless stream of questions to get an understanding of the effect of specific regulations on housing production, which could be the basis of later studies, but to manage the complexity I focused on affordable housing project approvals. I asked respondents to tell me if it was common to delay housing project approvals and why delays occur. I discovered two themes with this line of questioning: entitlement issues and permitting issues. However, even with approval and construction permits, developers often delay or cancel construction because of business related issues.

As expected, all respondents denied that intentional delays exist in general. However, six of eight respondents (HPROGRAM, COMMUNITY, PLANLR, PLANHE, SPECIAL, COMMISH) mentioned approval and permitting process related issues that can delay production. HPROGRAM, COMMUNITY, and SPECIAL explained that developers often try to gain access

to entitlements by requesting zoning changes for their developments. These requests often require general plan amendments, which coincidentally require several layers of review, including public hearings. HPROGRAM and COMMUNITY mentioned entitlement approval time varies by the intensity of developments and whether they conform to other guidelines such as the aesthetic design. They also noted developers often come to the planning department to the planning department with rezoning requests that substantially deviate from the established general plan. HPROGRAM suggested it was often clear that developers and architects never looked at the general plan policies and goals. Because the entitlement request process is public, there are no guarantees that developers will get approvals. SPECIAL added that the public process of approvals usually require environmental impact report reviews in addition to comprehensiveness and consistency with the general plan and review by planning commissions and/or local legislative bodies. In SPECIAL's jurisdiction, the planning commission and the legislative body schedule review of general plan amendments among many other matters requiring their review. Therefore, the project review could push out for many weeks or months. Further, if local officials reject the application, the proponent must make changes before seeking another review.

COMMUNITY, PLANLR, PLANHE, and COMMISH explained that delays happen in the permitting process as opposed to the approval process. Approvals are mostly simple in their jurisdictions because those jurisdictions established zoning and entitlements long ago with little green field space left, a reality where rezoning makes little or no sense. COMMISH explained that the traditional delays that occur in zoning and subdividing do not occur because the (COMMISH's) jurisdiction approved subdivisions 100 years ago. That jurisdiction does not get the 600-acre projects; they get the 10,000 square foot infill proposals where developers can build within the current zoning. PLANHE added that affordable housing projects receive expedited planning entitlements making the permitting nearly ministerial. COMMUNITY and PLANLR

discussed the challenges in permitting in light of infrastructure needs. COMMUNITY mentioned the local voter approved prohibition of building in flood risk areas unless the jurisdiction secures 200-year flood protection. PLANLR contrasted infill and green field construction permitting. Green field developments face concerns like flood protection and habitat conservation that slows permit issuance and construction because the developer must go through the federal permitting process for species protection. The lack of or insufficient infrastructure delays infill project permitting. Insufficient infrastructure typically correlates with less desirable neighborhoods; therefore, where public opposition is slight in those areas, the infrastructure problem can make developing harder.

PLANHE and COMMISH acknowledged that financial issues, often more complicated than entitlement approvals, cause delays. COMMISH claimed that the mixture of federal, state, and local rules around financing are difficult to navigate and market-rate housing developers, attempting to include affordable housing in their projects often cannot successfully figure it out. PLANHE has found that timing is an issue. Even with all fees paid and infrastructure in place, ready for construction, some developers still do not build because they believe that with massive swings in prices and uncertainty that interest rates will stay low, buyers will have a hard time, or may lose the desire to secure financing. The self-imposed delay is consistent with the Mayo and Sheppard (2001) study suggesting that uncertainty carries a cost affecting housing production.

Required public participation

Many of the respondents referred to the entitlement process as a major source of delay, or even rejection of projects, especially made difficult by public participation in the process. To gauge the public involvement, I asked respondents about public opposition toward affordable housing and the challenges faced by affordable housing developers. To create context, I also

asked respondents who the opponents and proponents are and their arguments on the matter. All eight respondents acknowledged opposition presenting challenges for developers.

All respondents identified NIMBYs as the major source of opposition toward affordable housing. However, they all also mentioned that the NIMBYs recognize the need for affordable housing; their opposition is against building it near where they live. For brevity, I did not explain all the NIMBY responses, but nearly all respondents had stories about the efforts and actions taken by NIMBYs to prevent housing construction near them. HPROGRAM, COMMUNITY, SPECIAL, and ELECT explained that NIMBYs might oppose affordable housing less often if they relied less on their assumption of the type of people living in affordable housing. The majority of NIMBYs consider perceive no distinction between affordable housing and Section 8 public housing. HPROGRAM noted the reality that some real estate agents send out flyers telling people those affordable housing developments would be these massive skyscrapers bringing in undesirable people, seeking to create and strengthen the NIMBY perceptions. The misconception of affordable housing is widespread because the opposition has had better outreach than that of advocates. HPROGRAM, COMMUNITY, and SPECIAL explained that when affordable housing rental complexes have good managers, they are cleaner and safer than most market rent apartment complexes. HPROGRAM further explained that affordable housing is usually difficult for renters to find because applicants have to provide background and income information for tax credit verification. As a result, people living in affordable housing work hard to secure their affordable places to live. Thinking that they would jeopardize that for which they devoted that effort is misconceived. However, the perception persists because desirability is a matter of lifestyle compatibility and NIMBYs clearly believe, hard working or not, the low-income household lifestyle is a threat to the sanctity of their own.

SPECIAL, from an affluent jurisdiction, noted that NIMBYs oppose housing in general, not just affordable housing. These NIMBYs typically oppose more development based on conservation of trees and wildlife. However, SPECIAL suggested that the opposition might look very different if the development was for office space instead of housing. People get used to seeing certain undeveloped spaces stay undeveloped. NIMBYs might raise objections over concerns about privacy to encourage the planning commission or legislative body to reject the project. The developer might tweak the plans to accommodate the privacy concerns; then the NIMBYs revert to concerns about tree removal. PLANLR, PLANHE, COMMISH, and ELECT acknowledged specifically that NIMBYs want to protect their housing investment. The presence of additional housing near them reduces value because of additional supply, but affordable housing near their home reduces the value because of the lingering perception.

The NIMBY opposition presents challenges for developers and planners because of affordable housing imbalance. Five of eight respondents (COMMUNITY, PLANLR, PLANHE, COMMISH, ELECT) explained that the influential neighborhoods always resist housing developments (including affordable housing). PLANHE added that those affluent neighborhoods say that affordable housing should stay in the lower price neighborhoods because it would have much less impact on housing values there, while lower-price neighborhoods say that they already have enough affordable housing near them. As PLANLR noted, the conundrum for developers is that building affordable housing in affluent neighborhoods would be more profitable, with better buyer prospects, but the opposition often pushes the developments to less desirable locations, where the developer then has to decide if the projects are worth the trouble. This conundrum challenges planners because many of the good paying jobs are located in those more desirable areas. With the affordable housing pushed more toward the less desirable areas, often the

jurisdictions core, planners face mitigating where low-income households live and the location of the good jobs.

The respondents also identified proponents for affordable housing in the Sacramento region. They mentioned the Sacramento Housing Alliance, Legal Service of Northern California, homeless and church advocates, affordable housing developers, and of course, NIMBYs advocate heavily for affordable housing, highlighting the lack of affordable housing in other areas of the jurisdiction. PLANLR explained that proponents are typically involved at all levels from the regional needs assessments, to the general plan and housing element development, to housing ordinances. Therefore, they are active from a big policy perspective (federal, state, and local), but they are also active at the specific plan and project decision-making levels. On the other hand, the opponents are less active at the big policy level. They get involved when developers propose projects that affect them.

Does inclusionary housing requirements help meet affordable housing goals?

In the literature I read about inclusionary housing, the authors referred to it as a zoning practice, connoting land use implications in particular areas in the jurisdiction. However, after speaking with local officials, I found that inclusionary housing programs exist as jurisdiction-wide ordinances. Two of the jurisdictions, represented by four respondents (COMMUNITY, PLANLR, COMMISH, ELECT) had inclusionary housing ordinances. Three jurisdictions (HPROGRAM, PLANHE, SPECIAL) did not have inclusionary housing, but had alternative programs to promote the development of affordable housing. Having regional focus, REGION intentionally did not have a position on inclusionary housing. I asked the jurisdictions with inclusionary housing whether their programs helped to meet affordable housing goals and for them to explain what kinds of projects they have seen under those rules. I asked jurisdictions

without inclusionary housing programs what they thought about inclusionary housing, and I asked them to describe why they do not have the program.

Three of the four respondents (COMMUNITY, PLANLR, COMMISH) in the inclusionary housing jurisdictions said inclusionary housing has worked to produce affordable housing units, but they all also said it had challenges. COMMUNITY said that the jurisdiction's program resulted in over 100 single-family affordable units; however, the majority of affordable units are rentals. COMMUNITY also mentioned that for-sale restricted housing is challenging because buyers face problems if they lose their job where they often have to walk away because the seller can have a hard time finding another qualified low-income buyer. Managing numerous single-family units requires sufficient staff and with a tight budget, minimal staff cannot manage the program well; therefore, the jurisdiction has focused on rentals. COMMUNITY also mentioned that the jurisdiction has changed the inclusionary policy, making it more flexible, allowing alternatives to building a percentage of affordable units in a market-rate development. PLANLR and COMMISH said inclusionary housing has failed to meet their jurisdiction's goal of housing parity or a mixture of income levels and housing types. PLANLR said the ordinance helped produce over 1,000 deed-restricted, long-term affordable units while COMMISH said the ordinance helped build new affordable housing in only certain areas in the city where the jurisdiction expected new growth. COMMISH also spoke to the deed-restricted houses wondering what happens to those people who buy those houses. The deed-restricted houses force the buyers to absorb all the downside of ownership (working with the bank for a loan, depreciation risk, and maintenance of the house) and none of the upside (appreciation, must occupy removing the ability to collect rental revenue). ELECT denounced inclusionary housing as prohibitive to private sector developers, limiting what they can earn. Inclusionary housing results in more non-profit developers, less motivated by profit, requesting public assistance, and ultimately a less

cost-effective approach to developing affordable housing. All four respondents mentioned that inclusionary housing could not be a long-term solution. As the housing market changes, the jurisdictions must adjust their ordinances similar to that of COMMUNITY.

Of the three respondents (HPROGRAM, PLANHE, SPECIAL) in non-inclusionary housing jurisdictions, two (HPROGRAM, SPECIAL) never had inclusionary housing, one (PLANHE) recently removed its inclusionary housing ordinance. All three explained that there was no inclusionary ordinance because the building industry successfully lobbied the legislative bodies against the ordinance. Notably, the HPROGRAM and SPECIAL jurisdictions are on the fringe of the Sacramento region, where the PLANHE jurisdiction is central to the region. PLANHE said builders were able to convince the legislative body that inclusionary housing was to blame for the lack of housing production, but the ordinance took effect shortly before the recession. The building industry claimed that the only places they could build had low-price houses anyway and the new construction could not compete. HPROGRAM and SPECIAL said the constituencies never pressured the legislative bodies to adopt inclusionary housing. HPROGRAM explained that the development fee the jurisdiction charges allows for leveraging other funding sources and to control when and where to build affordable housing. SPECIAL said that without the grants and other resources that bigger cities qualify for, housing development would stop. The jurisdiction's attitude toward inclusionary housing was that it did not want to have developers pass money lost on inclusionary housing on to their market-rate projects. SPECIAL said the jurisdiction had no problem reaching the affordable housing numbers. Moreover, part of the reason jurisdictions adopted inclusionary housing was because it is one of the easiest ways to reach the affordable housing numbers, by making progress toward it on every development. Additionally, inclusionary housing is a good way to get a housing element

approved by HCD. It makes everyone happy except the builders who disappear. Then the goals inclusionary housing was supposed to help achieve become unreachable.

Regulating housing development summary

Regulating housing development limits the supply of housing in the Sacramento region, but the story is the same as the rest of California where conflicts of interests and priorities become present. While the state government expresses priorities through statute and guidelines, the players at the local level can choose to conform or do what they choose. The choice to conform usually depends on the jurisdiction's appetite for grant funding programs where the state government can withhold eligibility for grants among the non-conforming jurisdictions. The California Constitution grants local governments' police power, which they use to further their own particular priorities. Jurisdictions express those priorities through planning efforts influenced by the most influential. In some jurisdictions, the influence might come from NIMBYs, in others it may come from developers.

The literature often implicates governments and regulations as the source of prohibitive fees, exactions, delays, and rejection of projects that would increase housing supply. However, through discussions with these local officials, those delays and rejections are often the result of developers proposing projects far beyond the policies and goals established in the general plans. Although, jurisdictions do implement general plan policies using exactions and time consuming reviews that add costs. Aggressive public participation by affluent communities in jurisdictions can often defeat, or delay to death, the effort by developers to get affordable housing projects to the point of breaking ground.

Inclusionary housing, an ordinance some jurisdictions use to promote affordable housing has produced more affordable housing (small in scale), but at what cost? Could the affordable units have come at the cost of lower overall housing production? If so, the trade-off is

affordability for low-income household categories, but affordability hardship for moderate-income households. If inclusionary housing ordinances (the requirement to make 10-15% of units affordable to low-income populations, as opposed to exacted inclusionary housing fees) were subjected to nexus tests, jurisdictions may have predicted the trade-off. However, because an ordinance is legal through traditional mandamus, jurisdictions need no official evidence or findings to pass inclusionary housing ordinance. The ordinance is defensible in court simply because of the legislative process. The legality of an ordinance is notably different from exactions imposed to obtain construction permits. A jurisdiction must be able to justify an exaction in court based on evidence of impact from a nexus study. The alternative fee that some developers opt to pay, instead of dedicating land or affordable units, is an exaction and the size of the fee is subject to administrative mandamus, which does require impact evidence on file to be defensible in court.

Public Policy and Housing Demand

A major component of housing affordability is desirability, which jurisdictions affect by investments in amenities and public policy choices. Therefore, I asked respondents why they thought some neighborhoods were less affordable than others. Additionally, I wanted to know how investment choices affect the type of housing and amenities built. The California Housing Partnership Corporation (2014) claimed that along with redevelopment agencies' tax-increment funds disappearing and California Housing Trust Fund (Proposition 46 and 1A) drying up, Community Development Block Grant, and HOME Partnership Program money drastically decreased as well by 2014. Therefore, I wanted to know how if jurisdictions received those funds, and how they used them.

Affordability in neighborhoods

The seven respondents from local jurisdictions (excluding REGION) generally mentioned the same reasons for differences in affordability across neighborhoods. With slight

variations, all respondents said that the most desirable neighborhoods were those with access to the most amenities, driving up the prices in those areas. They described the amenities as good (and newer) schools, perception of lower crime rates, more and nicely cared-for trees (all positively correlated with a lower percentage of low-income households in neighborhood). They all also described the difference in construction between most of the older and newer neighborhoods, noting that older houses tended to be smaller. For example, the three-bedroom, one bathroom, 1,000 square foot house on a small lot was common long ago, but most new houses are at least double the size with many more features. HPROGRAM mentioned that density tends to correlate positively with affordability in most cases. Although, the correlation likely differs between the urban core and the fringe communities. COMMUNITY noted a trend, seeing people moving to the jurisdiction from the foothills, wanting to reduce their environmental footprint. The trend likely the result of kids moving out of the house, the desire to be closer to work, and with the kids gone, no need to live in secluded, safe neighborhoods with good schools. However, it is unlikely these people moved into the least desirable neighborhoods, limiting any displacement effect, consistent with the Vigdor (2002) findings of gentrification causing little or no harm to low-income households. If anything, the opposite might be true as PLANHE explained that as wealthy households left the older, lower-quality houses for the newer houses, the low-income households with little or no mobility choices moved in, but the public investments followed the households with all the money.

Funding affordable housing

My respondents consistently brought up the problem of funding. They all spoke to the hardship created by the ending of redevelopment agencies. Jurisdictions had relied on dedicated tax increment money as a continuing stream of revenue to modernize identified redevelopment areas and to keep housing affordable. Some jurisdictions had a significant proportion of their land

designated as redevelopment areas. The end of redevelopment hit those areas hardest. For example, COMMUNITY stated that 50% of the jurisdiction was in a redevelopment area. Other long-standing sources of continuing funds include is the Community Development Block Grant (CDBG) and the HOME Investment Partnerships fund. The California Housing Trust bond funds (Proposition 46 and 1C), since 2006, provided funding for affordable housing developments, homeownership assistance, and urban infill infrastructure. Through a combination of local fees, state grant programs, and federal pass-through funds, all jurisdictions also have local affordable housing funds they use specifically for affordable housing production. I asked respondents what kinds of projects these funding sources supported and what kind of barriers developers faced securing these funds.

While I was able to get detailed responses from some respondents, for some, I overlooked the fact that the Sacramento Housing and Redevelopment Agency (SHRA) administers housing programs and funding. Therefore, I had to look at the SHRA website for details about the City and County of Sacramento. The Agency's role has diminished considerably as a former redevelopment agency; however, as a Joint Powers Authority it retained a role in housing programs administration for the two jurisdictions. According to SHRA, the California Trust Fund provided infrastructure funds for the Township 9, Curtis Park, and Railyards developments. The seven respondents representing the five local jurisdictions all stated that they had projects funded by the state trust fund bond money. The bond money, distributed by HCD, mainly funded infrastructure needs. The limited nature of the fund created the competitive environment and considering the aforementioned projects, HCD favored 'sustainable communities' proposals including greenhouse gas reducing components. PLANLR noted that the irony of the bond funds (particularly the Proposition 1C bond) was that it promised infrastructure, but overlooked that the affordable housing itself required subsidy also.

Respondents also spoke briefly about the CDBG and HOME federal funds. Four respondents (COMMUNITY, PLANLR, SPECIAL, ELECT) described these funding sources as supplementary and dedicated to continuing commitments. Those commitments include infrastructure and capital improvements, homeownership assistance, and other miscellaneous programs assisting the poor. All four added that the funding has diminished in the last decade; therefore, so have the programs they supported.

Two respondents (COMMUNITY, REGION) talked about the AB 109 Cap and Trade Investment Fund as a resource for affordable housing. SB 862 (2014) established the desired use of state revenue from AB 109 for affordable housing. However, the bill lists affordable housing among several other desired uses including high-speed rail, low-carbon transportation, energy efficiency and renewable energy, and natural resources and waste diversion. Perhaps other respondents did not speak to SB 862 because the legislature has not clearly defined how it will allocate the money. COMMUNITY said the jurisdiction applied for the Cap and Trade funds intending to further transit development, suggesting that highly developed transit will make housing costs less burdensome on households by reducing their transportation cost. REGION mentioned that the Cap and Trade funds were supposed to fill the funding gaps for affordable housing developments, but early indications suggest that is not happening. Like all other state funding sources, the Cap and Trade funds are highly competitive and with 87 pages of guidelines for qualifying and applying, many projects fail because it simply takes too much time and energy just to figure out if they qualify. Further, REGION mentioned that the state has approved only about 50 projects, of which only about five in the Sacramento region. Somehow, the legislature directs the funds at the state priorities, which with the ambiguous SB 862, fluctuates somewhere between affordable housing, greenhouse gas reducing transit, and energy.

Six of eight respondents (HPROGRAM, COMMUNITY, PLANLR, SPECIAL, ELECT, REGION) offered an explanation about barriers to receiving public funds. All but ELECT mentioned the main barrier was competition. ELECT added that using state and federal funds is a problem because if using that money means losing control on how to use it.

Public policy and demand summary

As neighborhoods sort, those with and without abundant amenities, it is clear that the sorting reflects the ability to pay in the Sacramento region. Those with the means to afford to live in desirable neighborhoods, do so by choice. As ELECT mentioned, we live in a free-market, capitalistic society also by choice, where businesses rationally look to serve those that can make their business thrive. Therefore, the amenities will always follow the money.

Findings and Analysis Summary

Housing affordability is hard to define because it involves a complex mixture of personal choices and economic implications, but clearly, the public policy focus in the Sacramento region is on affordable housing for low-income households. Although, a million people might produce a million slightly different definitions because they answer based on their own perception and situation. The same was the case speaking to local officials. They all provided responses rationally biased toward their jobs, as expected. Housing program officials spoke to programs and funding, planners mainly to developments and housing needs among other planning issues, the community development official spoke to broader economic implications, and the elected official and commissioner spoke broadly to constituency issues. All responses together provided a comprehensive picture of the major tenet of the affordability problem, namely the housing shortage due to lack of funding and restrictive regulations. People complicate the problem by their nature, wanting to have their ideal place to live, but even more so because they want to keep others out. Respondents spoke about jobs and income as a major driver of the problem, which is

intuitive, but the desire to have their ideal place, recognized by developers as a market characteristic, has sprawled out housing in the region to the point where employers have to deal with stressed out employees dealing with traffic congestion. People's desire for ideal living over the decades has resulted in regulations and public policy making it harder to build to respond to the seemingly endless demand for housing.

Looking at regulations affecting housing development, the distinction between state priorities and that of local jurisdictions becomes evident. The state sees the overall economic ramifications of declining housing affordability, resulting in difficulty in attracting larger employers and degradation of the environment because people drive further distances to live in more affordable houses increasingly found further from employment centers. However, jurisdictions driven by the desire of active citizens concerned about their individual investments and security, seek to reject housing development or to push it away from where they live. The legislature continues to acknowledge that local jurisdictions are in a better position to make land use decisions (Government Code §65580(d)) using the police powers vested to them by the California Constitution Article XI, Section 7. The conflict in priorities is also evident when looking at Government Code §65580(a) stating, "The availability of housing is of vital statewide importance, and the early attainment of decent housing and a suitable living environment for every Californian, including farmworkers, is a priority of the highest order." However, local jurisdictions clear priority is public safety, where they devote the majority of their budgets. Moreover, as SACOG works with jurisdictions to negotiate their fair share of responsibility to build affordable housing, as HPROGRAM noted, they have no obligation build any affordable housing even after accepting the allocation.

From one perspective, the same people identified as NIMBYs have the power to sway the location of housing development, as well as the power to replace elected officials in their

jurisdictions and in the state legislature. Therefore, efforts to require jurisdictions to think regionally or to align their priorities with that of the state have failed to materialize so far. Local jurisdictions demonstrate their power to control their land uses, without regard to surrounding jurisdictions or to state priorities with housing advocates active at all levels of planning only to see projects challenged by public participation at the point of approvals and permit issuance. From another perspective, if there were more economic certainty, the power and influence of private developers may replace NIBMY power.

In this chapter, I covered a mountain of issues and characteristics contributing to the housing affordability problem in the Sacramento region. After reviewing literature, popular media, advocacy publications and interviewing local officials on housing affordability, I have come to a few preliminary conclusions, which I present in the following chapter. The problem is a result of a failure to match state and local priorities, because as we are now realizing the external costs of expansive, low-density housing development, regulations and public policy assign most of the cost of the externalities to new entrants into the housing market, as if households living here for decades have no part in it. Further, the burden placed on new entrants include absorption of problem mitigation fees, excessive property taxes on home prices artificially inflated by regulations that hinder housing supply growth. Academic literature and advocate publications seem to place the blame on government actions, which is partially justified. However, what seems to go unrecognized is that governments are public policy makers and implementers that act on the will of the public. When government fails, the corresponding constituency has failed. Governments want to make the best society out of wants and needs expressed through direct democracy or representation, but the conflicting priorities suggest a tragedy of the commons, the tenets of which, made painfully clear by Hardin (1968). He suggested that demands of an ever-expansive population is not sustainable as the cries for rights and freedoms erode all the essentials

we all need to survive. The land use priorities of local jurisdictions, clinging to their rights to land use decisions, clearly take priority over many statewide priorities.

Chapter 5

CONCLUSION

Throughout my thesis, I concentrated on the problem of housing affordability as a nebulous concept affecting all income levels. My study confirmed that affordability for low-income households is a current public policy interest for local officials. Most academic literature on housing affordability looks at land use regulations and housing supply as the major factor for the affordability problem. The Sacramento region officials I interviewed partially agreed with the literature, but steered away from local land use practices and zeroed in on the lack of funding as the factor. It is not surprising that those officials focused on external forces, as the land use practices within their jurisdictions reflect their constituents' values. Those residents with aptitude in land use legalities and voting politics leverage their power to ensure that local officials' perceptions align with their desire for regulations to protect their communities. Less invested low-income households that would benefit from less restrictive zoning requirements are probably lack that political power and are less inclined to squeak. While academics quantified the degree of land use regulation with tools such as the Wharton Residential Land Use Regulation Index, they may overlook the amazing power of residents in localities in California. The planning design landscape in the Sacramento region is similar to all other regions in California, and perhaps different from localities in other states, because of Proposition 13. As William Fulton (2003) declared, "the Proposition 13 psychology changed our view of growth from good to bad." The growth that Fulton described; which I have come to understand, is the increase in housing. It increased the use of local land use regulations and decreased local revenues (Fulton, 2003), covering the factors raised by both academics and local officials.

Do we do away with the laws enacted by Proposition 13? Obviously, it is not that easy and allowing for more discretionary general fund revenue for local governments may not even be

a solution. As noted by Wassmer (2005), spatial segregation of like interests is a natural occurrence, and Proposition 13 was a manifestation of voter's desire to limit the ability of government to spend tax money disproportionately. Wassmer (2005) also highlighted Charles Tiebout's theory from 1956 that claimed that people locate themselves according to their desired level of public good (amenity) consumption. Obviously, the choice of location depends on income; therefore, Tiebout's theory places control of amenity consumption on those with the means to decide. Low-income households deal with the leftovers after high-income households decide. However, the power to decide is one of the attractive features of a free-market society, the incentive to reach the high-income status. The decision-making power is also that which decides where developers build affordable housing and what regulations exist in the jurisdiction.

Revisiting the Housing Affordability Problem

Housing affordability is a complex problem exacerbated by housing shortages partially caused by restrictive housing and land use policies. Those policies serve desired environmental purposes but restrict the supply of affordable housing. The reason for the shortage in the Sacramento region is the same as other regions in the state. Academics identified regulatory environments (Malpezzi, 1996; Gyourko, et al., 2008; Saiz, 2010; Paciorek, 2013), geographical constraints (Saiz, 2010; Paciorek, 2013), and demand characteristics (Smith, et al., 1988; Can, 1990; Paciorek, 2013; Guerrieri, et al., 2013) as the major causes for housing shortages.

Although, recall that Smith, et al., (1988) called housing a durable good and that the existing stock weighs heavily on decisions to add inventory because of opportunity cost implications and that supply does not adjust easily in response to demand shocks. Therefore, a wild building spree of affordable housing attempting to match demand is likely not a solution for these reasons and the political/institutional ones that it are likely to curtail it. Quigley and Raphael (2004) found that housing affordability is not a problem for homeowners, but is for renters, disproportionately

affecting low-income households confined to the rental market. Local officials in the Sacramento region confirmed this assertion. Low-income households usually cannot secure financing to purchase housing, and with many previous homeowners switching to renting after the recent recession, they shorten supply of rental housing and price out low-income households. This displacement pushes low-income households into neighborhoods known for congestion, high crime, low performing public schools, and deteriorated housing creating health, safety, and well-being concerns. Low-income households hold the same rights as anyone else, but in our market-driven economy, they lose out on the bidding that decides how to allocate scarce resources. Some politicians campaign on the idea that all households deserve decent housing, however, the reality is that neither the federal nor state constitution declares the right to receive scarce resources. Government has historically found reason to intervene in the housing market to force the availability of affordable housing; albeit with declining revenue resources and among other pressing choices.

Why do these rough neighborhoods exist? Perhaps Fischel's (1990) wisdom of zoning only being effective among political equals also holds true in rough neighborhoods, where the dominant bad guys set the unofficial zoning (and behavior) rules on the street. Another question, does simply being low-income sentence a household to living in those conditions? Jurisdictions have tried to deal with the question with inclusionary housing. Believing that they are fighting the good fight, they have required new market rate housing developments to include affordable housing at great cost to the developer. Other jurisdictions assess affordable housing fees on new market rate housing developments to bolster the fund used to subsidize affordable housing. The message that jurisdictions send is clear, developers are responsible for the externalities of additional housing (and those that purchase their products, because developers simply pass on much of the additional expenses to buyers). However, just as officials' definition of housing

affordability changed with their area of focus, the externalities change depending on some fusion of income or housing tenure status, or more simply, depending on your interest. NIMBYs must perceive them as additional traffic, and more crime. Another externality they must perceive are public school classrooms where school administrators divert limited resources to the additional education interventions usually necessary for children raised in low-income households. Additionally, their perceived externalities include tax money diverted to other services that would not need additional funding if not for more people (especially the poor, who often utilize a disproportionate amount of local public services), and removal of open space. Low-income households are burdened with the external cost of entrenched homeowners influence on jurisdictional land use policies that make building affordable housing harder than it's worth for many developers. Therefore, the costs include repeated transaction costs as prices change, increased transportation needs, as remote affordable housing often requires additional pecuniary and temporal costs.

The complex factors leading to the housing affordability problems are a combination of economics influencing politics/institutions. Throughout this thesis, I have explained how policy actions (state and local) influenced housing supply and demand creating winners and losers. Before laying out my policy ideas, I summarize how affordable housing stakeholders would create better understanding of the impacts of my ideas.

Summary of Affordable Housing Stakeholders

While everyone in the Sacramento region is in some way a stakeholder in the area of housing affordability, I developed a short list of key stakeholder categories with the most significant interest in affordable housing, the solution for low-income household affordability. I focused on affordable housing, but the greyness between the concepts of housing affordability and affordable housing rise again when looking at stakeholder interests because the former is a

broad picture encompassing the latter. The following summaries will help to consider the political implications of my policy options below or for any policymaking in housing affordability.

Local officials

Officials in the Sacramento region have a variety of interests ranging from ensuring the health, safety, and general well-being of their residents to fiscal management. Every jurisdiction must provide desired levels of services with the resources available. Wassmer (2005) noted that each jurisdiction, acting exclusive of another, does so with varying levels of desire for services. Some jurisdictions (usually suburban) incorporated with the intent to reduce the provision of services, using zoning to produce only large, expensive houses to limit the low-income element that typically requires public services. Other jurisdictions, usually counties with unincorporated territory or central urban cities, have large populations of low-income households, implicitly excluded from services-reducing jurisdictions. The level of services, and thus the composition of the jurisdiction budget, is therefore a product of the dominant political forces within the jurisdiction.

In the Sacramento region, like most others in California, local officials respond to pressure that dictates their tenure in office. In the City and County of Sacramento, that pressure may come from homeowners, but because of the large population of low-income households, housing advocates grab enormous attention as they represent a significant proportion of voters that directly or indirectly influence employment outcomes of local officials. Regardless of their personal opinions about effective public administration, local officials must act on the will of the majority in their jurisdiction (while also considering statewide guidelines such as the *California General Plan Guidelines* and the *CEQA Guidelines* from the Office of Planning and Research if hoping to qualify for state grant programs). Fringe jurisdictions such as Rocklin and Elk Grove receive little pressure from housing advocates because they have much higher proportion of

moderate- and high-income households. On the other hand, in Sacramento, little developable land remains, whereas Rocklin and Elk Grove have enjoyed green space, perhaps resulting in less need for conflict with respect to locating affordable housing.

Local officials also must work with state and federal officials seeking to advance their own goals. However, besides exclusion from funding opportunities and the occasional threat of lawsuit³, local officials have little reason to care about state or federal programs. Although, California jurisdictions usually take great interest in state and federal funding opportunities because they are so intensely restricted by Proposition 13 and successive revenue limiting legislation. This reliance on state and federal programs are much like asset bubbles because when the funds are plentiful, life is good, when state and federal officials cut those programs, local officials must scramble to maintain service levels and other obligations, including affordable housing subsidy.

Overall, local elected officials want to ensure health, safety, and general welfare of their constituency. They also want to secure their budgets, which creates political trade-off situations where some residents win, while others lose. Officials in the regions fringe cities of Elk Grove, Rocklin, and Davis receive less pressure from affordable housing advocates to include affordable units in market-rate projects or to build affordable housing at all. Those fringe cities spend less in subsidies, but they also qualify for fewer federal and state grants with lower proportions of low-income households. Older region core jurisdictions of Sacramento the county unincorporated territory saw most of their housing built pre-Proposition 13, when official had no need for creative fiscal-motivating land uses. Developers built former generations versions of affordable

³ The Sacramento Housing Alliance sued the City of Folsom in 2011 when the city attempted to eliminate its inclusionary housing program. The city claimed the ordinance restricted development resulting in failure to build housing at all prices. The lawsuit led to a settlement where the city retained its inclusionary housing program, but reduced the requirement from 15% to 10% units affordable to low-income in new developments (Locke, 2014).

houses in these core jurisdictions (small structures on small lots), inheriting disadvantaged communities with deteriorated houses and apartments, high-crime neighborhoods, and low performing schools when higher-income households found nicer housing alternatives further away. Unfortunately, the core jurisdictions receive great pressure from advocates to produce this generation's version of affordable housing.

Sacramento Area Council of Governments (SACOG)

SACOG is in the unenviable position of dealing with regional transportation issues in the Sacramento region while maintaining dual primary responsibilities: the federal Metropolitan Planning Organization and the state Regional Transportation Planning Agency. SACOG is also the negotiation mediator of affordable housing fair-share numbers allocated to the region by HCD based on California Department of Finance demographic projections. SACOG works with local jurisdictions until the six counties and 22 member cities agree to their fair share to build; however, like an army company sent to war without rifles, after SACOG negotiates to an agreement, jurisdictions do not need to comply. Local jurisdictions must simply write their fair share numbers into their subsequent general plan housing element revision. If jurisdictions build market-rate housing instead of affordable housing, nothing happens most of the time. Legal advocates such as Legal Services of Northern California might sue a city for not building affordable units, but that probably only occurs in the urban core (or, on occasion, older fringe communities, as in the Folsom case) where advocates apply pressure.

Other functions that SACOG perform are research for the benefit of local planners and manage state and local allotments for state and federal transportation planning grant programs. None of the functions gives SACOG any police or corporate power over local agencies to protect them from themselves, similar to what local jurisdictions do for their residents. Comprised of 32 members, the SACOG Board of Directors are all supervisors, mayors, and councilmembers of six

counties and 22 cities, one would think that agreeing to affordable housing numbers would also be a promise to build. The Council self-imposed the rule of supermajority voting to implement federal or state programs requirements among its member cities and counties, including housing planning requirements. However, the reality is that when those directors go back to their jurisdiction, they remember those competing priorities of their constituents probably come before any priorities among their appointed peers at SACOG.

California and federal officials

Health, safety, and general welfare are much more nebulous at the state and federal levels. While local jurisdictions, through land use regulations, can socially engineer the demographic composition of their population, states and the nation cannot because of mobility enjoyed by residents of the United States. People can move freely between localities and states for commerce, but income largely dictates residency. That mobility creates economic concerns for state officials: (1) how to attract and retain large employers, and (2) how to maintain the relevant workforce available to achieve (1). Concern (2) involves local jurisdictions because people want to live in places that combine desirable level of services, amenities, and crucially, the income to pay for it all. State officials are likely less concerned about mobility than local officials because of spatial equilibrium (Glaeser and Gottlieb, 2009; Matlack and Vigor, 2008). Knowing that people tend to migrate into California (versus out), spatial equilibrium meant that jurisdictions within the state would balance the high- and low-income residential and commercial activity through spatial segregation (Wassmer, 2005); alleviating concerns (1) and (2). The problem is that the spatial segregation, resulting in new jurisdictions, disinvestment in low-income areas, and disparate levels of service provision has contributed to another statewide concern, climate deterioration through high greenhouse gas levels, resulting largely from growth and mobility. Local officials are more concerned about growth and mobility for a few reasons.

First, it is much easier to move to a neighboring city. Second, it is easy to shop in the next city. Finally, it is easy to work in one city, live in another, and shop in a third. These reasons suggest that spatial equilibrium in California perpetuates the growth and mobility, which makes local jurisdictions' budgets hard to estimate. In effect, in addition to supplementing local jurisdictions' budgets, reliance on state and federal funding sources might stabilize them. With spatial equilibrium a moving target because of growth and mobility, equity questions remain unanswered about the balance between and within California's regions. For example, we might see a jobs/housing balance at the statewide or regional scale (meaning for every poor job or housing local or regional market in California, there is an offsetting strong job or housing market). Nevertheless, imbalances can exist at the local level when Davis and Rancho Cordova has more jobs than housing and Elk Grove and Rocklin has more housing than jobs.

State officials included affordable housing into the climate conversation, perhaps recognizing that development patterns throughout the state favored low-density, large housing, requiring car travel. When land was abundant and no one was particularly concerned about growth management, land use efficiency was not in the lexicon of state or federal officials. The legislature passed SB 732 in 2008 forming the California Strategic Growth Council, which they charged with mitigating the climate impact of growth and mobility. In 2014, the legislature passed SB 862 forming the Affordable Housing and Sustainable Communities program, which gave the Strategic Growth Council the power to grant (AB 32) Cap and Trade auction proceeds to projects advancing the council's mission. That mission being the reduction of greenhouse gasses to 1990 levels by 2020, as required by AB 32, by overseeing funding programs leading local planners to adopt sustainable communities' strategies prescribed in SB 375. The fiscal year 2014-15 Cap and Trade grant awards totaled \$122 million, but out of the 28 projects receiving funds, only one project (Delta Lane Affordable Housing and Grand Gateway – City of West

Sacramento) in the Sacramento region is slated to receive funds (Strategic Growth Council, 2015).

Federal officials are concerned about the federal budget and the national economy, which means they are concerned with the impact that housing affordability affects the largest federal revenue generating state in the nation. As the national economy improves, HUD gradually increases CDBG and HOME grants and housing payment assistance programs, which helps lay the groundwork for more housing. Possibly the biggest expense, however, remains the home mortgage interest reduction tax deduction. If HUD and other federal officials put any credence to reports like *Reexamining the Social Benefits of Homeownership after the Housing Crisis*, from the Joint Center for Housing Studies, they might realize that continuing subsidization of homeownership might only support continued speculation, with houses as the tradable assets (Rohe and Lindblad, 2013). Evidence in California has shown that institutional investors have acquired many foreclosed homes, turning them into rentals. Nevertheless, as speculation always goes, the investor activity only lasts while it lasts. Federal officials likely support subsidizing homeownership to support the industries thriving because of homeownership, but would those industries still thrive if developers were building high-density affordable housing for rent instead? Would redirection of mortgage interest tax expenditures to an Affordable Housing and Sustainable Communities type strategy improve the national economy? Possibly, if officials find that the majority of consumer spending comes from those low-income households that cannot afford housing.

Housing developers and advocates

For this thesis, I categorized housing developers into two groups, market-rate and affordable housing developers. The market-rate developers seek to profit by mastering market essentials (pricing, placement, promotion, and product characteristics) and demographic realities

(willingness and ability to pay). The affordable housing developers are those that exist to serve the housing market created and controlled through government intervention. Instead of relying on free-market fundamentals, these developers master the processes of securing public funds available to produce housing that the free-market cannot provide. Chamber of commerce organizations and other commercial and construction lobbying organizations typically represent market-rate developers in local and state policy development. While housing advocates typically represent affordable housing developers.

Market-rate developers have been the biggest opponents against inclusionary housing because it forces them to pass the cost of it onto to customers (reducing demand for their product) or absorb the cost through lower profits. The only exception to this being if an outside entity (state or federal) subsidizes the requirement for affordable housing. COMMISH explained that some market-rate developers have tried to build affordable units within the inclusionary housing framework, but most cannot figure it out because for-profit and non-profit ventures require different approaches. In Sacramento County, before the Board of Supervisors decided to change its inclusionary housing program, allowing more flexibility, builders practically built no housing within the jurisdiction, except by those market-rate developers that were willing to navigate the complex world of affordable housing subsidies. The unintended consequence of that old inclusionary program was excluding all developers not willing to navigate, because no market-rate developer could find a way to profit if required to build affordable units. Those that tried added the loss from the affordable units onto the cost of the market-rate units, further inflating prices.

Affordable housing developers in the Sacramento region are typically non-profit mostly funded by federal, state, and local subsidies. Mercy Housing, Mutual Housing, and Jamboree Housing are a few notable nonprofits active in building affordable units in the Sacramento region.

However, the pseudo-market created with public assistance has developed into an industry with organizations such as Sutter Health Foundation, US Bank, and Wells Fargo delivering tax-deductible donations to Sacramento Housing Alliance, Housing California, and Habitat for Humanity as stewards of donated funds. Additionally, many consulting and legal organizations serve the important role of educating developers and builders how to navigate the system of public funding and defending them from litigation. It does not take long to start to see that a growing industry built on public funding is a bubble waiting to pop, but how else pay for housing that the free-market avoids?

NIMBYs, real estate agents, and housing and community associations

Since beginning this thesis, I have become quite familiar with the NIMBY label. The label often carries a negative connotation as people standing in the way of progress. If you are in a low- or moderate income household, you have reason to agree, because as academics, advocates, and media firms alike find NIMBYs guilty of hindering housing development, especially affordable housing. In fact, in April 2015, the *Sacramento News & Review* published their inaugural NIMBY awards, calling out Sacramento's most egregious scenarios where NIMBYs used the legal system to block development (vonKaenel, 2015).

While the anecdotal and educated accusations indicting NIMBYs is plentiful, NIMBYs have rational reasons for blocking housing development. Without ranking, the main reasons include protecting their investment, protecting their way of life, and protecting their ideal surroundings. Intuitively, the investment of a house is in its appreciating value, which rises as demand has outpaced supply. The less obvious investment is the maintenance and upkeep and the Proposition 13 lock-in effect. As the value continually rises (usually much more than the pace of inflation) the property tax owed is based on the original assessment (the base-year), increasing by 2% (the assumed rate of inflation) each year. Therefore, the property tax savings locks the owner

in to enjoy in perpetuity. Even when the value declines lower than the purchase price, such as the recent housing bubble bursting, the owner can ask for a re-assessment at the lower value and start over with a new base-year tax assessment. It is likely that NIMBYs overly stress out about their home value because they want to profit from their investment after they turn 55, where they can then transfer their base-year assessment to a new house anywhere in California (Proposition 60 in 1986). They can even transfer the base-year assessment to their child or grandchild (Proposition 58 [Parent-Child] in 1986, and Proposition 193 [Grandparent-Grandchild] in 1996). While locked in with a favorable property tax assessment or planning to transfer a house to family makes the NIMBY very interested in the surroundings and the way of life in the house, as they are in it for the long run. If additional housing in the area saturates demand decreasing the value, then adding affordable housing doubly decreases the value, saturating and bringing heterogeneous lifestyles and cultures to the community.

Nearly all respondents mentioned that they thought that NIMBYs simply do not understand modern low-income households. They echoed advocacy publications referring to elementary school teachers, nurses, and security guards as affordable housing patrons, not felons or drug addicts. However, the lowest income people who might be felons or drug addicts or people that just cannot rise up the economic ladder feel the real problem. The occupations I listed living in affordable housing can afford market-rate housing in parts of the Sacramento region, but maybe not where they want to live. Those people with those low-income occupations rent those affordable units that would have otherwise gone to the lowest income people. In the NIMBYs defense, people in low-income households likely do live differently than high-income households. It is no coincidence that the majority of prison and jail populations are people from low-income and disadvantaged households. They likely take more chances and probably live in the short-term (neglecting personal and property investments because of paycheck-to-paycheck

means), a stark contrast from most higher-income households probably living more conservative (saving and investing). It is important to distinguish NIMBYs from other homeowners. All homeowners are concerned about protecting their most important investment from devaluation, which qualify them as NIMBYs, to a degree. Some NIMBYs however, become activists to fight the development rather than submit to progress. As William Fischel (2001) identified in his book *The Homevoter Hypothesis*, most homeowners go beyond their expected role of monitoring local governments to maintain their quality of life. They also fight to ensure local governments do not affect the increasing value of their house investment.

Real estate agents, who are also opposed to affordable housing, encourage NIMBYs disreputable position about affordable housing. It was not surprising to hear the story from HPROGRAM about the real estate agent selling affordable housing as skyscrapers and neighborhood killers. Some respondents also noted that they have altered their programs to shift from building affordable for-sale and rental single-family houses to apartment rentals, because of the challenges with managing units spread throughout the jurisdiction. The trend equates to lost sales and rental commission opportunities for agents, shifting the possible private market incentives to government agencies and property management firms.

The big question with NIMBYs is whether it is right for them to block building affordable housing (or any housing). Recall in the opening paragraph of this thesis where I quoted Representative Nydia Velázquez (D-NY) (2014) who said, “Fair and affordable housing is a basic right for all New Yorkers and all Americans.” Then recall later in chapter 1 when I quoted former President Harry Truman (1949) who declared that all American households would have a “decent home in a suitable living environment.” In today’s society, these two statements oppose each other. According to NIMBYs, you cannot have a decent home in a suitable living environment if fair and affordable housing is nearby. Are they wrong? They are simply preserving their decent

home and their suitable environment, albeit asking to place the affordable housing elsewhere. They prefer to avoid the equity question that suggests they tax themselves more to counteract the negative externalities housing affordable to low-income households create: congestion, crime, and the cost of public school education provision. Devising public policy options, I considered this reality and acknowledged that NIMBYs should have the right to preserve their suitable environment, as they deem appropriate. However, public policy also must consider the inherent inequity of a child born to a low-income single mother forced into homelessness or renting in a low-income neighborhood with poor education, high crime, and low mentor opportunities it offers.

Public Policy Options

No one ever said the law of the land must be fair; it only need be constitutional. Laws in California must also receive majority vote (except tax inciting laws, which usually require two-thirds vote in the legislature or majority ballot vote), which still does not necessarily make them fair to all, just to the majority of those voting. I mention legal fairness because one ideal starting point to solve the complex housing affordability problem would be to make changes to the laws enacted through Proposition 13, a good example of legal, but not fair. Tocqueville (1835) warned us of the tyranny of the majority, a threat to democracy where the powerful majority dictate laws and customs that favor their ideals at the expense of weaker minorities. Proposition 13 surely fits Tocqueville's description as the laws dramatically favor existing homeowners, imposing the cost of growth on directly on prospective homeowners and indirectly on housing developers. The rationale is that prospective homeowners increase the NIMBY version of externalities, and that developers exacerbate the externalities by providing the means. The fairness question is whether it is just for marginal increases in population to pay for those externalities. A yes answer assumes that people that have settled into the region, purchasing a home and land, have exclusive rights to

the use of their land and the surrounding land. The surrounding land argument lends itself to the notion that homeowners have the right to protect their home investment by dictating the area around it that might influence its value. A yes answer also means that homeowners private claim to their land is higher priority than the public desire to share the surroundings, including the public not yet residing in the community. Favoring the private rights over society's use seems quite hypocritical considering that all homeowners acting in favor of exclusion once migrated into the area (either themselves or previous generations). A no answer to the question means that existing homeowners contribute equally to the externalities and should equally share in the cost. However, as long as direct democracy exists in California, the majority will take charge, fair or not. According to the Public Policy Institute of California, 72% of likely voters in the state are homeowners, a clear and decisive majority (Baldassare, et al., 2014).

Because of a long history of mistrust of government, both constructs of direct democracy and Proposition 13 are here to stay. The railroad barons' of the late 19th and early 20th centuries control of state government officials led to direct democracy. Local jurisdictions power over property tax rates led to Proposition 13 in the 1970s. Paradoxically, greed and failure to anticipate how actions affect all factions resulted in laws, which allowed more greed and failure to anticipate reactions. In my opinion, in both cases, we traded tyranny of the minority to that of the majority. Nevertheless, any public policy, whether it is state or local, will need to work within the current legal system, because direct democracy and Proposition 13 are untouchable, as no elected official would dare alter legal framework cherished so deeply by the majority. Any public policy would need to garner broad acceptability by the stakeholders, but especially homeowners (including NIMBYs), making up 72% of the political force that would be content with status quo.

The following public policy options consider what I learned by reviewing the housing affordability literature and through my interviews with local officials. The confluence between

excessive local land use regulations (the academic version of the problem) and the lack of funding to subsidize affordable housing (the local officials' version of the problem) is tricky to navigate because of the complexity of intermingled interests. The actual problem combines both versions and solving the combined problem will not occur with a single solution. Like many complex problems, solutions will likely require incremental actions. However, the risk with incremental actions is changing political perceptions or changing economic conditions that would change breadth of the problem. People could start moving out of California. A mass exodus would render our affordability problem solved because demand would also depart, bringing down the economic price equilibrium of for sale and rental housing. The likeliness of massive reduction in population in California is not likely, despite continuing concerns about the historic drought and questions of potable water supply. Assuming stable and trending political and economic status, policymakers in the Sacramento region and in the state government should consider the following policy options, in which I offer the policy idea and the pros and cons considering stakeholders' reactions.

Empower SACOG – Affordable housing abatement districts

In all my interviews, respondents mentioned that NIMBYs and their homeowner associations do not oppose building affordable housing. Instead, they oppose building it in their neighborhood. It is important to clarify NIMBYs interests because then it becomes clear that all stakeholders agree that we need more affordable housing. If NIMBYs desire to exclude housing affordable to low-income households from their communities, the costs negative externalities forcing affordable housing out of their neighborhood, they should compensate those displaced by paying a mitigation tax, similar to Mello-Roos community facilities districts (CFD), authorized by Government Code §53313. To enable this compensation, I propose a law allowing the formation of affordable housing mitigation districts (AHMD). Wassmer (2005) proposed a

similar solution by suggesting that local jurisdictions bargain for their fair share of affordable housing obligations through a cap and trade system similar that which the California Air Resources Board administers for carbon credits. However, through my discussions with local officials, accepting their fair share does not usually translate to units built. From the economic perspective, allowing homeowners to block affordable housing development is not Pareto efficient because those homeowners do not directly compensate the households that struggle to find housing because of the price increases that come from undersupply. The Kaldor-Hicks test for economic optimality would find that assessing the tax on those causing the struggle would bring the economy closer to Pareto efficiency by providing the funding needed to build more affordable housing.

The difference being that CFDs raise revenue to build things or provide services beyond what the current budget can provide; the AHMD would raise revenue to avoid building. Unlike CFDs, which local jurisdictions initiate, if local policies allow them, the local Council of Government (SACOG for the Sacramento Region) would initiate the AHMD at the request of developers who receive organized opposition to affordable housing development plans. Typically, the LAFCO would dictate boundaries of special districts, but AHMDs would constitute financing special districts, and LAFCOs do not have power to decide local jurisdictions' ability to create financing mechanisms. The boundaries of the AHMD and the tax rate should be determined with a nexus test similar to those that justify exaction payments on developers. The state budget would allocate the tax revenue to SACOG providing the regional jurisdiction leverage when negotiating with jurisdictions over their fair share of affordable housing.

The AHMD option would require a tax rate that would also fund the needed administration of the districts. The option would provide a fair way to allow NIMBY led communities to maintain their surroundings by avoiding construction of affordable housing near

them by assessing their share of the external cost imposed on developers. NIMBYs and other homeowners would benefit from this law because it gives them a way to pay for something that, up to this point, they would have to lobby for, with the results sometimes favoring the developer. In addition, while Vigdor (2002) found little evidence that gentrification harms low-income households because they could always choose their living arrangement, choosing to pay more for better living, or less for lower standards, I say the same applies to homeowners. If displacement (by choice or otherwise) of low-income households is harmless, then the choice of households to stay in the AHMD because of the additional tax should be harmless. Although, recall Smith, et al. (1988) explained the transaction cost for a homeowner is greater than that for a renter. Therefore, the policy's tax formula should also consider concessions for the additional relocation cost.

A potential negative of the AHMD policy would be the possibility of unintended consequences. First, forming financing districts will be contentious because some homeowners will disagree that their property should be included within the district. Accounting for movement in and out of the district will also be challenging. Additionally, the nexus test establishing the boundary and tax rate could be cost prohibitive. The state legislature has already made clear that the availability of housing is of statewide importance, so the benefit should outweigh the cost of designing a statewide template for the nexus test and implementing it locally. Another negative is the potential for abuse. For example, a private investigation in 2013 revealed a CFD in San Diego overcharging homeowners (Faryon, Price, 2013). This case illustrates the risk involved with forming any new public functions, the risk of mismanagement or abuse.

Incentivize housing density in neighborhoods

As required by Government Code §65915, local jurisdictions with police powers grant density bonuses to developers to encourage lower selling prices or rents through economies of scale in construction. Why do we not offer similar incentives to neighborhood homeowners?

After all, if incentives silenced homeowner opposition, developers would build to meet demand with fewer obstacles and prices would be more affordable through a lower price equilibrium point. Administering this kind of incentive would mean that local jurisdictions would need a mechanism to determine the correct recipients.

Almost the opposite of the last option – neighborhoods that embrace high-density housing development (specifically affordable housing) would receive a special property tax credit. The research informed formula to determine the size of the credit would consider the impact to property value. Applicable homeowners would receive the credit for a limited number of years and the value of the credit would diminish, probably at the same 2% rate of assessed home value increases. Because the availability of housing is of statewide importance, the local jurisdictions' revenue losses because of the property tax break, the state would need to offset those losses fully. The Strategic Growth Council could allocate a portion of Cap and Trade auction proceeds for this purpose.

Ancillary policy actions and future research

The previous policy options offer ideas to deal with the lack of funding for affordable housing, but another giant hurdle is the current system of local land use controls. At this point, I am convinced that the current system of local control is good for affluent residents, but bad for future prosperity of the state of California. The system of local control may have worked harmlessly when land was abundant, but as local jurisdictions have built out to their capacity, questions about who gets what have become more intense. In the past, bold policymakers have created laws to protect us from ourselves, and I believe more is necessary. If we consider the use of land, and jurisdictions' corporate powers a market, and if the market were to adjust like free markets, then we might begin to see similar adjustments to correct the inefficiencies. In other words, consider the airline industry. In 2013, U.S. Airways merged with American Airlines to

partly to gain competitive advantage in the industry, but more so to enjoy economies of scale. Some jurisdictions create economies of scale by collaborating or creating joint power authorities to share the costs savings of shared services. However, jurisdictions should consider this same path with land use planning. The recent SACOG Blueprint is a non-authoritative attempt at regional planning, but are jurisdictions ready to abide? Can they abide? Will residents allow it? Or will jurisdictions combat further tragedy of the commons and protect us from ourselves.

Many of my respondents said that most NIMBYs are against affordable housing near them because of their perception of the type of people that live in affordable housing. They also said that those NIMBYs might change their perception if they did not rely on traditional understandings of low-income households. Reform attention must address the current reality that allows housing advocates and developers to influence policies in housing elements, but also allows any organized group of homeowners to reject projects. State policymakers must continue to look closely at how CEQA and housing element laws perpetuate this activity. I believe my thesis has revealed that the former and latter contradict the priority in Government Code §65580(a) that reads, “Housing availability is of statewide importance, and the early attainment of decent housing and a suitable living environment for every Californian, including farmworkers, is a priority of the highest order.”

The professional planners I interviewed pointed to the shining example of Portland, Oregon and the abundant development of affordable housing options. The Oregon model of required regional governance over land uses likely made that example possible, mitigating the tragedy of the commons. Portland has received notoriety from the national and worldwide industries of land development and has received equivalent notoriety for its regional transit system, TriMet. Is it a random coincidence that Portland does land use and transportation so well? Or can the regional governance model better explain that success? The League of California

Cities and the California State Association of Counties have long opposed regional land use control, perhaps leaving California regions with a disadvantage compared to places like Portland. Perhaps future research can find ways for these organizations to maintain relevance without their most prized power.

Final thoughts on Housing Affordability

I provided substantial information in this thesis about housing affordability in the Sacramento region and while policy might provide a solution for now, the problem comes down to a battle of powerful interests. The private interests of homeowners and of developers are a zero sum game. Every inch a developer takes to build takes value, in some form, from homeowners. Every win homeowners capture in the name of preventing growth takes earnings from the developer, and intensifies the affordability problem. The social interest involves economic development and providing housing options for low-, very low-, and extremely low-income households. Economists often frame this tradeoff between interests as the balance between private interests and market efficiency. Advocates for the low-income might call the tradeoff a balance between the desires of the advantaged and the needs of the disadvantaged. Media and advocates might describe NIMBYs as greedy progress-stoppers, but they are simply protecting the wealth they might perceive an alternative to traditional savings. Developers make decisions to build based on market indicators telling them that sufficient demand exists. Developers provide the mechanism for growth, no matter if it is the inefficient sprawling kind or smart growth increasing density and public transit utilization. Those NIMBYs denouncing growth clearly see their neighborhoods as extensions of their property, requiring particular land uses that keep their investments appreciating.

Policy makers must decide on the best balance of homeowners' private interest of wealth building and community fabricating and housing opportunities for the lowest-income households.

Favoring homeowners might mean continued treatment of the housing market as an exclusive asset market. Favoring low-income households might change the region's landscape adding taller, denser apartment complexes in more transit corridor areas and smaller for-sale houses in areas that have seen only large expensive houses. Policy favoring low-income households might look like a dramatic shifting of resources to people those homeowners might feel do not deserve it.

Like many civil rights discussions we have had as a county, a state, and as a local community, policy makers must consider that the reality that most low-income families are born into their status. It is a moral dilemma that political will excludes low-income households from housing opportunities and amenities simply because live differently. The lowest-income people had no choice in the families into which they were born. Their choices in life were partially the product of an upbringing they had no say in. To what degree do we banish these people from communities with better amenities? This choice might mean the difference of a growing population of the lowest income problem-makers and rehabilitated, reinvigorated people that might begin to visualize the path to higher income and better living. My policy options provide the groundwork for this balance by conceding affordable housing locations to the pleasure of homeowners that agree that the housing type is needed. The options can also extract from them a fair share of the external costs of limiting growth and that of excluding low-income households from amenities enjoyed through more robust economic development in more affluent communities. Homeowners have long enjoyed the political protection of their elected lawmakers, assessing the cost of growth on indifferent developers that pass the cost on to new homebuyers directly, but on to low-income renters indirectly because more moderate-income households have filtered into the rental sector. The filtering is a consequence of restrained housing construction.

Appendix A – Wharton Residential Land Use Regulation Index

(Gyourko, et al., 2008, pp.719-722)

SURVEY ON RESIDENTIAL LAND-USE REGULATION

JURISDICTION

Name of Jurisdiction _____ Zip Code _____
 Type of Jurisdiction _____

(City, County, Township, Town, Village, Borough)

Size of Jurisdiction _____ square miles

Population

Current population estimate _____

Population growth: Past 5 years _____% Projected next 5 years _____%

GENERAL CHARACTERISTICS OF LAND REGULATORY PROCESS

- In your community, how involved are the following organizations in affecting residential building activities and/or growth management procedures? Please rate the importance of each on a scale of 1 to 5 by circling the appropriate number (1 = not at all involved; 5 = very involved).

	1	2	3	4	5
Local Council, Managers, Commissioners					
Community pressure					
County legislature					
State legislature					
Local courts					
State courts					

- Which of the following are required to approve zoning changes, and by what vote?

	Yes	Yes, by simple majority	Yes, by more than simple majority	No
Local Planning Commission				
Local Zoning Board				
Local Council, Managers, Commissioners				
County Board of Commissioners				
County Zoning Board				
Environmental Review Board				

- Which of the following are required to approve a new project that does not need rezoning, and by what vote?

	Yes	Yes, by simple majority	Yes, by more than simple majority	No
Local Planning Commission				
Local Zoning Board				
Local Council, Managers, Commissioners				
County Board of Commissioners				
County Zoning Board				
Environmental Review Board				

4. On a scale of 1 to 5, please rate the importance of each of the following factors in regulating the rate of residential development in your community (1 = not at all important; 5 = very important). Please circle the appropriate number.

	Single-family units					Multi-family units				
Supply of land	1	2	3	4	5	1	2	3	4	5
Cost of new infrastructure	1	2	3	4	5	1	2	3	4	5
Density restrictions	1	2	3	4	5	1	2	3	4	5
Impact fees/exactions	1	2	3	4	5	1	2	3	4	5
City budget constraints	1	2	3	4	5	1	2	3	4	5
City Council opposition to growth	1	2	3	4	5	1	2	3	4	5
School crowding	1	2	3	4	5	1	2	3	4	5
Length of review for zoning	1	2	3	4	5	1	2	3	4	5
Length of process for building permits	1	2	3	4	5	1	2	3	4	5
Length of review process for land development plan	1	2	3	4	5	1	2	3	4	5

RULES OF RESIDENTIAL LAND USE REGULATION

5. Does your community place annual limits on the total allowable:

	Yes	No
Number of building permits – single family?		
Number of building permits – multi family?		
Number of residential units authorized for construction – single family?		
Number of residential units authorized for construction – multi family?		
Number of multi-family dwellings?		
Number of units in multi-family dwellings?		

6. To build, do developers have to meet these requirements?

	Yes	No
Meet the minimum lot size requirement If yes: ½ acre or more _____ ½ acre or less _____ 1 acre or more _____ 2 acres or more _____		
Include “affordable housing” (however defined)		
Supply mandatory dedication of space or open space (or fee in lieu of dedication)		
Pay allocable share of costs of infrastructure improvement		

SPECIFIC CHARACTERISTICS

7. How does the acreage of land zoned for the following land uses compare to demand?

	Far more than demanded	More than demanded	About right	Less than demanded	Far less than demanded
Single-family					
Multi-family					
Commercial					
Industrial					

8. How much has the cost of lot development, including subdivisions, increased in the last 10 years? Please circle the appropriate category.

0-20% 21-40% 41-60% 61-80% 81-100% >100%

9. How much has the cost of a single family lot increased in the last 10 years?

0-20% 21-40% 41-60% 61-80% 81-100% >100%

10. What is the current length of time required to complete the review of residential projects in your community?

For single-family units: _____ months For multi-family units: _____ months

11. Over the last 10 years, how did the length of time required to complete the review and approval of residential projects in your community change?

	No change	Somewhat longer	Considerably longer
Single-family units			
Multi-family units			

12. What is the typical amount of time between application for rezoning and issuance of a building permit for development of:

	Less than 3 months	3-6 months	7-12 months	13-24 months	If above 24, how long?
Less than 50 single-family units					
50 or more single-family units					
Multi-family units					

13. What is the typical amount of time between application for subdivision approval and the issuance of a building permit (assume proper zoning is already in place) for the development of:

	Less than 3 months	3-6 months	7-12 months	13-24 months	If above 24, how long?
Less than 50 single-family units					
50 or more single-family units					
Multi-family units					

14. How many applications for zoning changes were submitted in your community in the last 12 months? _____

15. How many applications for zoning changes were approved in your community in the last 12 months? _____

In the event we might need to clarify any of the answers to the above questions, we would appreciate the following information, which will be held in total confidence.

Name _____
 Title _____
 Organization _____
 Address _____

 Phone _____
 Fax _____
 E-mail _____

Please check this box if you would like to receive the results of this survey.
 Thank you very much for taking the time to complete this survey.

Appendix B – Interview Respondent Consent to Participate Form

You are invited to participate in a research study that will involve understanding local officials' perspectives, in addition to previous academic research to better understand the housing affordability problem in the region. My name is Sean Johnson and I am a Master's student at California State University, Sacramento, Department of Public Policy and Administration. You were selected as a possible participant in this study because of your community development/planning affiliation and expertise in housing supply and demand in your jurisdiction.

The purpose of this research is to build on previous quantitative research of regions across the nation with qualitative research specifically for the Sacramento region. If you decide to participate, you will be asked to answer several open ended questions about housing affordability, effectiveness of state funding, jurisdiction zoning policies, and challenges to housing development. Your participation in this study will last approximately 30 minutes.

There are some possible risks involved for participants. The risks involve ensuring confidentiality and privacy. Any information that is obtained in connection with this study and that can be identified with you will remain confidential. Measures to insure your confidentiality are that I will be the only person with access to the data and no names or titles will be used in the collection or reporting process. The data obtained will be maintained in a safe, locked location and will be destroyed by May 8, 2015 after the study is completed

There are some benefits to this research, particularly that it will contribute to robust understanding of housing affordability, integrating previous national and statewide academic research with perspectives from local community development and planning practitioners. This

research is unique in that it is Sacramento region-specific and will give local and regional policy-makers some ideas on how to deal with the housing affordability problem.

If you have any questions about the research at any time, please call (or email) me at [REDACTED] ([REDACTED]), or my Advisor, Professor Robert Wassmer at 916-278-6304. If you have any questions about your rights as a participant in a research project please call the Office of Research Affairs, California State University, Sacramento, 916-278-5674, or email irb@csus.edu.

Your participation is entirely voluntary and your decision whether or not to participate will involve no penalty or loss of benefits to which you are otherwise entitled. If you decide to participate, you are free to discontinue participation at any time without penalty or loss of benefits to which you are otherwise entitled.

Your signature below indicates that you have read and understand the information provided above, that you willingly agree to participate, that you may withdraw your consent at any time and discontinue participation at any time without penalty or loss of benefits to which you are otherwise entitled, that you will receive a copy of this form, and that you are not waiving any legal claims, rights or remedies.

You will be offered a copy of this signed form to keep.

Signature

Date

Appendix C – Interview questions – Housing Affordability in the Sacramento Region

My name is Sean Johnson and I am studying housing affordability, particularly in the Sacramento region. According to the California Housing Partnership Corporation, one way to look at the problem in Sacramento County is that 70% of very low-income households pay more than 50% of their income on rent. I reviewed literature about measuring affordability, how housing supply shortages exacerbate affordability, and how demand characteristics influence where housing is affordable. While much of the research I looked at provides affordability analyses at state or regional levels, I want to get local jurisdictions' perspectives about the problem.

1. How would you define housing affordability for the residents of your jurisdiction?
2. Based on your definition of affordable housing, do you think there is an affordable housing problem, or shortage, in your jurisdiction?
 - a. Are there neighborhoods in your jurisdiction in which housing is affordable? If so, can you provide examples and why do you think some neighborhoods are affordable and others are not?
3. What are the major drivers of a lack of affordable housing in your jurisdiction?
4. Is there opposition within your jurisdiction toward building new affordable housing developments? Are there challenges for developers of such housing in some neighborhoods more than in others? If so, why?
 - a. Who are the proponents for affordable housing? What are their arguments?
 - b. Who are the opponents? What are their arguments?
5. What is the most prominent source of housing development approval delay in your jurisdiction, if any?
 - a. Can the length of time vary? Why?
 - b. Does the time vary for single-family zoned, multi-family, or mixed-use? Why?
6. *With* Inclusionary Housing Program - Has the inclusionary housing program helped to meet affordable housing goals?
 - a. What kind of proposals are you seeing under the program (new development, rehabilitation projects, and infill or higher-density development)?
 - b. What percentage of new housing is attributed to inclusionary housing program?
- Without* Inclusionary Housing Program – What is the city council's/board of directors' opinion about inclusionary zoning?
 - a. What is the typical resistance regarding, or arguments against adopting, inclusionary zoning?

7. *Has* been awarded Proposition 46 (2002) and Proposition 1C (2006) funds from the California Department of Housing and Community Development – What are some prominent projects created with the funds and how have the projects promoted affordable housing?
 - a. Have there been barriers beyond project approval, for those seeking to receive the bond funding?

Has not been awarded Proposition 46 (2002) and Proposition 1C (2006) funds from the California Department of Housing and Community Development – Can you please explain some of the barriers to using the funds?

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