

## REPORT FROM CHAIR DAVID PAULL

The Federal Home Loan Bank of San Francisco's Affordable Housing Advisory Council is pleased to present our 2023 Annual Report. The Council is made up of dedicated and experienced affordable housing and community development professionals working across FHLBank San Francisco's three-state district of Arizona, California, and Nevada. This report will be included in the Bank's larger 2023 Impact Report, expected to be published in mid-May 2024, with detailed results of the 2023 annual grant programs and new funding initiatives.

### **Tackling Persistent Affordable Housing Challenges**

Throughout 2023, discussion topics around our Advisory Council table focused on familiar problems — the ongoing shame of an ever-growing population of unhoused people; a stubbornly inadequate supply of affordable housing options for very low-, low-, and moderate-income renters; and the millions of families and individuals priced or otherwise left out of homeownership opportunities. We also tackled emerging topics, like the escalating urgency of addressing the disproportionate burden that climate change is imposing on underserved communities, generally, and on both developers and residents of affordable housing, specifically.

Across Arizona, California, and Nevada, the lack of affordable housing is highest in metropolitan areas, but rural areas are not immune to the problem. Our three states are among the top five in the country with the lowest availability of affordable homes for extremely low-income renters, and housing supply for lower-income families is similarly restricted. Unhoused populations continue to grow, nationally and regionally. The Bank's district is home to about 33% of the U.S. unhoused population; about 30% of all unhoused families and individuals in the U.S. are in California alone. California and Arizona are both in the top five states for increasing numbers of unhoused people, and in Nevada, the homeless count spiked 16% in 2023.

Common challenges to affordable housing continue. The supply of rental housing subsidy vouchers to support new developments remains insufficient. High costs and interest rates are creating unexpected financing gaps, which lead to delays in initiating projects and completing construction. Resources are scarce for organizations trying to preserve and operate aging affordable housing portfolios. Similarly, there is difficulty in consistently funding organizational capacity when developer fee income is postponed and reduced by construction delays and rising costs.

### **Coming Together to Understand Impacts of Climate Change**

It has long been clear that climate change exacerbates existing social and economic inequalities, disproportionately affecting marginalized communities that are more likely to live in affordable housing. As the frequency and severity of natural disasters increases, insurance premiums for properties in high-risk areas are also rising. Energy costs are likewise skyrocketing in the Bank's district. These trends can make both renting and owning less affordable, particularly for low- and moderate-income individuals and families who may struggle to afford higher insurance and energy costs.

More than 18 million rental units across the U.S. are exposed to climate- and weather-related hazards, according to the latest American Rental Housing Report from Harvard University's Joint Center for Housing Studies. Across the Bank's district, rising insurance premiums and policy non-renewals are

making building and operating affordable housing projects exponentially more difficult. Moreover, these issues are creating new risks for those in desperate need of affordable and resilient housing options, including vulnerable and housing-insecure people and for underserved, often Black and Brown, communities.

## On the Ground in the 11th District: Some Momentum and Some Setbacks

### Pursuing Creative Local- and State-Level Solutions in Arizona

In Arizona, 34% of the population are renters. The state saw a 41% increase in eviction filings between 2022 and 2023, while 2023 also saw the second highest level of eviction filings in Maricopa County since 2000. Arizona also continues to face one of the worst homelessness crises in the nation, with a 30% increase in homelessness since 2020. The state has the fourth highest rate of unsheltered homelessness, with almost 54% of unhoused people sleeping outside or in other areas not meant for habitation.

Home prices increased dramatically in the years after the pandemic and have remained high. In the Phoenix MSA (Metropolitan Statistical Area), 23% of sales were paid for in cash in June 2023, and 26% of the housing stock in the region was either seasonal or investor owned as of February 2023.

To address these issues, housing professionals and policymakers are discussing how to make building housing easier, especially affordable rental units. Efforts to find creative solutions have occurred at all levels — local, city, and state. Many of the solutions at the city and state levels are around zoning changes, a hot topic since last year’s controversial failed senate bill that would have limited cities’ ability to restrict multifamily housing. This year’s bills are not as wide sweeping, but rather try to address specific issues in zoning codes that can limit what is built. For example, SB 1415 would require cities with more than 75,000 people to allow backyard homes, while HB 2374 would forbid cities from requiring parking minimums for some new housing projects, which would lower costs. HB 2815 would streamline approvals for housing development on land owned by religious groups, similar to recently approved California legislation.

Cities have also worked to make some changes to their processes to help increase housing stock and affordability. The City of Tucson has been a leader in local legislation allowing backyard homes (casitas), which passed in 2022. The City of Phoenix will implement a new approval process in April, which will allow administrative approval for final plans without a review from the city council; the hope is that developers can save time, avoid delays, and keep prices lower. Local actors are also partnering around housing solutions. For example, the City of Bisbee is creatively partnering with nonprofits and the private sector to buy dilapidated homes, renovate them, and then sell them at 20% below market rate.

Arizona’s FY2023 annual budget included an historic investment of \$150 million for the State Housing Trust Fund (HTF), a contribution that has long been sought by housing advocates and is the largest ever. The Arizona legislature created a new \$60 million Homeless Shelter and Services Fund to provide new homeless facilities and supportive services to counties impacted most by homelessness, and it invested \$1.6 million in improving homeless outreach and management.

Arizona Department of Housing (ADOH) chose to apply its 2024 LIHTC allocation to 2023 to address increasing costs and bring new units online more quickly. ADOH also increased rural housing funding

awards in the state, including funding two projects in tribal communities. Rural projects benefitted from pairing the State Tax Credit with 9% tax credits, gap financing available for rural areas, and changes to tax credit program guidelines. Changes to program guidelines also lead to an increase in non-competitive 4% tax credits, from \$166 million in FY2022 to \$504 million in FY2023. In 2024, the proposed FY2025 budget from Governor Katie Hobbs extends the State Tax Credit established in 2022 for eight years, while also increasing credits available from \$4 million to \$8 million.

Arizona's exploding homeless population includes a significant number of seniors living solely on Social Security income and struggling to afford a stable place to call home as they age-in-place. In Maricopa County, data indicates that 2,000 people experiencing homelessness in 2023 were 55 and older. Arizona members of the Advisory Council are pleased that, in its 2023 AHP General Fund competition, FHLBank San Francisco awarded \$1 million grants to two affordable senior projects, one in Prescott County and one in Flagstaff, to collectively create 142 new units of senior housing.

### **Encouraging Pro-Housing Coalitions in California**

Both rents and home prices in California are among the most expensive in the nation. California has the highest wage needed to afford a market rate twobedroom apartment rental in the U.S., and the state has one of the highest rates of homelessness. According to one estimate, California would need to build 3.5 million housing units by 2025 to end its housing shortage. The shortfall contributes to rising rents and home prices, denying many families access to homeownership and forcing others to leave the state.

Of significant concern is that while renters of all ages are struggling to afford housing costs, unaffordability worsens as they age. About six out of 10 older renter households are cost burdened, with four out of 10 severely burdened. Women aged 75 and older who are living alone are severely impacted and at especially high risk of housing instability, with 72% rental cost burdened and 51% paying more than half of their income for housing.

As interest rates continued to climb and home prices stayed relatively flat, first-time homebuyer affordability gaps grew last year. Only 18% of all Californians earned the minimum income needed to purchase a home in 2023, down from 21% in 2022. Also troubling, less than 10% of Black and Hispanic/Latino households could afford to purchase a median-priced home in California in 2023, a decrease from 11% in 2022, compared to 21% of white households and 28% of Asian households who were able to afford a median priced home.

The significant disparity in housing affordability for Black and Hispanic/Latino households illustrates the homeownership gap and wealth disparity for communities of color, which could worsen should the economy slow and rates remain elevated in 2024, according to the California Association of Realtors.

In this environment, downpayment assistance programs continue to be an important tool for bridging the gap of affordability for first-time homebuyers, along with reduced interest rate products and closing cost assistance are also key to opening up first-time homebuyer opportunities.

Insurance premium hikes of 350% and more over the prior year are causing great difficulty across the board, including for developer-guarantors. There are growing concerns that some asset types, such as single-room occupancy properties, will not be able to get insurance in the future at any price. While new

production is critical to addressing the state’s housing supply crisis, existing affordable housing is falling into disrepair and/or in danger of converting to market rate housing. Without sufficient rental subsidies available, otherwise shovel-ready affordable projects, including permanent supportive housing, simply cannot advance.

Aided by an emerging coalition of developers, “YIMBY” activists, and, importantly, California’s unionized carpenters, 2023 saw a welcome pro-housing shift at the state level. A meaningful slate of legislation passed, primarily aimed at supercharging production of new housing stock. Senate Bill 4, the Affordable Housing on Faith Lands Act, allows religious organizations and nonprofit colleges to develop affordable housing on their property under a streamlined process. Potentially, over 171,000 acres could be opened for development. Senate Bill 423 extends provisions of previous Senate Bill 35 and allows fast-track development of affordable housing and reasonable labor standards for new housing development. ACA 1 lowers the voter threshold from two-thirds to 55% for affordable housing bond measures, and it will be on the ballot for final voter approval in 2024.

Statewide, Proposition 1, championed by Governor Gavin Newsom, has passed. The controversial measure aims to finance some 11,000 treatment beds and housing units with health care and social services for homeless people suffering from mental illnesses and addiction.

California Tribal Nations advocated for passage of Senate Bill 18, which would have created a grant program tailored to tribal needs and governance. Vetoed by Governor Newsom, the bill will be pursued again in 2024. In the meantime, we are hopeful that California’s \$600,000 share of FHLBank San Francisco’s new \$1 million capacity-building and infrastructure-focused Tribal Nations Program will help spur new affordable housing development. Although there is some voter fatigue in California, 2024 is an election year with opportunities to generate more funding for housing through a variety of new ballot initiatives.

The good news in California’s 2023-2024 budget is that it included over \$1 billion in funding for housing priorities, including adaptive reuse of underutilized commercial spaces, infrastructure for infill housing, the state’s housing tax credit program, and the Multifamily Housing Program.

Unfortunately, Governor Newsom’s 2024-2025 budget faces a projected \$38 billion deficit, and his proposed budget would cut funding for core housing production and preservation programs by \$900 million. According to Enterprise Community Partners, the proposed budget cuts, in addition to not continuing funding for programs at the FY 2023-24 level, will reduce the annual construction of new affordable homes by one-third — stalling an estimated 6,400 affordable homes. As a result, tens of thousands of Californians will remain without homes, communities will lose jobs and economic opportunity, and the state will forgo over \$1.6 billion in federal housing resources.

### **Protecting Renters and Homeowners in Nevada**

Nevada has the highest percentage of extremely low-income renters who are severely cost burdened, meaning the renter pays more than 50% of income on rent and housing expenses, in the country. The

state has no comprehensive plan to address this issue. The gap between median income levels and housing costs has widened, leading to more individuals and families experiencing housing insecurity or homelessness. Though Nevada’s severe housing crisis isn’t new, skyrocketing rents since 2020 combined with limited housing stock have exacerbated the problem.

Policymakers are also concerned that out-of-state investors are driving up costs, shutting out Nevada homebuyers, evicting at higher rates, and not managing the properties — all of which are lowering values and destabilizing the overall market. Nevada Senator Jackie Rosen and U.S. Representative Steven Horsford (whose district includes North Las Vegas, where most corporate-owned single-family rental homes in Clark County are located) have introduced the Housing Oversight and Mitigating Exploitation (HOME) Act in the Senate and House, respectively, to address the problem nationally.

Local government taxing authority is limited in Nevada, which makes it very difficult for local jurisdictions to provide new or additional incentives to develop affordable housing. Gap financing is also limited and impacts the number of projects that can receive financial support each year. This is especially evident in counties outside of Clark County and will limit the development of new housing.

Land availability is also a challenge. However, there is growing recognition throughout the state that the Bureau of Land Management, which owns substantial acreage, must release more land in key areas for affordable housing development. Additionally, several jurisdictions in northern Nevada are considering how to streamline the approval of affordable housing along with how to address regulatory challenges to help more affordable housing projects move forward.

Funding awarded through the American Rescue Plan will contribute to the creation or renovation of about 3,000 units of affordable housing. The Nevada legislature passed AB 310, the first funding from the General Fund earmarked by the state for supportive housing, and AB 528, which creates funding for certain projects aimed at combatting homelessness and assisting people experiencing it. In 2023, Clark County provided \$80 million in Community Housing Funds (CHF) to support affordable and permanent supportive housing and is expected to award up to \$70 million in CHF in 2024. Clark County is also working toward establishing the Welcome Home Community Land Trust to support low- and moderate-income first-time homebuyers in 2024 and 2025.

The State Qualified Allocation Plan added a Tribal Set Aside for 2025 to encourage more applications from tribal nations. Within Washoe County, jurisdictions are exploring alternative ways to encourage affordable housing in neighborhoods throughout the Truckee Meadows.

FHLBank San Francisco’s early investment in the Nevada Housing Coalition and 2023 launch of an AHP Nevada Targeted Fund are critical supports for increasing the supply of affordable housing and access to sustainable homeownership in the State of Nevada.

### **Investing in Communities Throughout the Region**

Our Advisory Council commends the Bank for rigorous administration of its annual statutory Affordable Housing Program (AHP), which includes [the AHP General Fund](#), [the new AHP Nevada Targeted Fund](#) and

the [WISH homeownership set-aside program](#) and the Community Investment Cash Advance credit programs. In 2023, the Bank's AHP General Fund awarded more than \$28,049,000 to create or preserve 2,595 units of affordable housing, while the AHP Nevada Targeted Fund awarded \$4,870,000 for 281 units. The WISH Program disbursed \$9,698,039 in matching grants to help 376 families and individuals become homeowners.

We applaud the Bank's innovative and voluntary initiatives and programs designed to make our communities more vibrant, equitable, and resilient. In our high-cost district, the Bank provided additional financial support to the [Nevada Housing Coalition](#) and allocated \$10 million to a [new Middle-Income Downpayment Assistance](#) pilot program that is making homeownership possible for families and individuals struggling to save for a downpayment. Launched in May 2023, all pilot program grant funds were disbursed to 216 households by October.

We are also pleased that last year the board allocated \$4 million for the non-mandated [AHEAD economic development grant program](#), now entering its twentieth year of boosting innovative initiatives aimed at bringing new opportunities to underserved populations and awarded grants of up to \$100,000 to 75 projects across the district.

We also appreciate how the Bank is [advancing racial equity](#) across the board through various efforts, such as a \$1.5 million Racial Equity Accelerator research collaboration with the Urban Institute; a four-city series of Homeownership Solutions Summits that resulted in a package of recommendations for systemic change; the education-focused voluntary Empowering Black Homeownership matching grant program, which awarded \$780,500 to match donations made to Housing Counseling Agencies serving communities of color; and a [new \\$1 million Tribal Nations capacity-building and technical assistance grant program](#).

There is no doubt that FHLBank San Francisco is making an impact locally, regionally, and nationally.

Funds available to build desperately needed affordable housing, make sustainable homeownership possible, and fuel economic development are persistently in very short supply. Our Advisory Council is proud to represent diverse stakeholders, constituents, and communities as we help to guide how the Bank deploys resources for affordable housing and economic development. FHLBank San Francisco's substantial contribution to pursuing our mutual goals is directly tied to its ability to meet the liquidity needs of its diverse membership, day-in and day-out, in all economic cycles.

I am pleased to report that the Bank's 2023 earnings are enabling a significant \$63.4 contribution to its 2024 AHP, with \$13 million of that statutorily defined amount allocated to the WISH first-time homebuyer program. In addition, the Bank will again make \$4 million available for AHEAD grants, and it will double the previous year's funding for Middle-Income Downpayment Assistance grants to \$20 million. In 2023 the Bank also renewed the successful Empowering Black Homeownership matching grant program with double the initial funding, from \$1 million to \$2 million. Critical to the success of these efforts is the enthusiastic participation of the Bank's member financial institutions, primarily local lenders for whom these programs are an additional benefit of membership in the cooperative.

## IN CLOSING

It is with sadness that I share that the Advisory Council and San Francisco's affordable housing community recently lost a key contributor, Maurilio León, respected and beloved leader of the

Tenderloin Neighborhood Development Corp. Family, friends, and colleagues are grieving his sudden passing. Caring, thoughtful, and humorous, Maurilio was a passionate advocate for vulnerable people and disadvantaged communities and a well-respected leader in the affordable housing and community development space. His work has had a tremendous impact, and we all feel very fortunate to have had Maurilio at our table. His valuable contributions and strong voice will be greatly missed.

In moving forward, the Advisory Council will continue in the spirit of Maurilio and make space for fellow advocates who share a passion for making affordable housing a reality for all. I am pleased to welcome Maryann Beerling, CEO of Compass Affordable Housing, Inc., Mee Heh Risdon, Director of Housing at A Community of Friends, and Andrea Whitsett, executive director of Arizona State University's Morrison Institute for Public Policy, to the Advisory Council and we look forward to benefiting from their expertise and the contributions they will make to our work.

Respectfully submitted,

David Paull  
Chair  
FHLBank San Francisco  
Affordable Housing Advisory Council