



**CALIFORNIA COALITION  
FOR  
AFFORDABLE HOUSING**

January 5, 2004

The Honorable Arnold Schwarzenegger  
State Capitol  
Sacramento, CA 95814

RE: AFFORDABLE HOUSING AND PREVAILING WAGE REQUIREMENTS MANDATED BY SB 975

Dear Governor Schwarzenegger:

The California Housing Consortium (CHC) and the California Coalition for Affordable Housing (CCAH) are requesting a meeting with members of your Administration to discuss potential administrative relief from the prevailing wage requirements mandated on affordable housing developments through implementation of SB 975. The most significant consequences on affordable housing are due to go into effect January 1, 2004. Without such relief, we believe the production of affordable housing apartments will be severely and negatively impacted, causing those who need affordable housing the most to suffer the most.

SB 975 was passed in 2001 without any involvement from those who would have to implement it (the affordable housing industry and local government) or those who will have to suffer its consequences (low- and very low-income residents).

Two independent studies have been conducted since passage of the legislation, and both document a future significant decrease in the number of affordable housing units due to the increase in construction costs caused by prevailing wages. The California Institute for County Government and the Institute of Business and Economic Research at the University of California, Berkeley, used widely accepted research methods and estimated, respectively, increases in wage rates of about one-third to one-half, and increases in overall project costs from 9 to 32 percent. The project costs analysis performed by researchers at UC Berkeley also took into account individual project attributes, financing and developer characteristics. Additional research is being conducted to further substantiate the results of these studies.

As you know, the increase in costs cannot be absorbed by state or local governments in these difficult economic times. The result? Some projects will become infeasible and will be abandoned; affordable housing developers will seek opportunities in other states; many areas of the state will not be able to develop affordable units at all; and developments that are built will require greater public subsidy and yield fewer units – in all cases, resulting in less housing available for low- and very low-income individuals.

The Berkeley study went on to estimate that affordable housing production financed through California's administration of the federal Low Income Housing Tax Credit Allocation Program could decrease by over 2,600 units per year because of the cost of paying prevailing wages on these jobs. At the same time, the State Department of Finance reports that California must build 250,000 units per year just to keep up with new housing demand.

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Two developments are essential to understand in remedying this crisis. One is that the State Legislative Counsel issued an opinion on July 8, 2002 which determined that affordable housing projects developed with the assistance of low income housing tax credits, among other resources, did not trigger prevailing wages. This opinion has not been recognized by the Department of Industrial Relations (DIR, the department responsible for implementing the legislation). The other is that DIR has confirmed they have insufficient resources to enable them to comply with providing the information required by affordable housing developers and agencies. In essence, affordable housing developments are victim to an impossible Catch-22 situation.

California currently produces some 15,500 affordable apartments annually, and continues to lag far behind the desperate need for such housing. Imposition of prevailing wage requirements will only exacerbate an already alarming situation.

CHC is the only statewide organization representing a "big tent" approach to addressing affordable housing issues important to all the varied interests of the industry. We are composed of a diverse group of nonprofit and for-profit developers, lenders, representatives from State and local government agencies, housing professionals and specialists, investors, property managers and owners, residents and business leaders.

CAAH represents a wide range of housing and economic interests that has come together on this issue due to the severe consequences posed to their development, lending and investing efforts as a result of the requirements of prevailing wages.

CHC (and the individual members listed below) and CCAH, strongly believe there are alternatives to implementation of SB 975 through administrative remedies, and request a meeting with your representatives as soon as possible. Maureen Higgins of Sloat Higgins Jensen & Associates is our lead contact on this issue. Maureen may be reached at 916/930-7182.

Thank you for your attention to this critical issue.

Sincerely,

Nancy J. McLaughlin  
Executive Director  
California Housing Consortium

Geoff Brown  
Chair, California Coalition for Affordable Housing  
President, USA Properties Fund, Inc.

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