Economic Policy Brief

Assessing the Economic Impacts of the Local-State Sustainable Incentive Program (SB 5, Beall and McGuire) March 2019

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In December 2018, Senator Jim Beall and Senator Mike McGuire introduced Senate Bill 5 (SB 5) to create the Local-State Sustainable Incentive Program, which would be administered by a newly created Sustainable Investment Incentive Committee. SB 5 would authorize the Sustainable Investment Incentive Committee to approve up to $11.5 billion in funding between 2020 and 2029 for qualified housing and infrastructure projects.[1] Qualified projects would "include, among other things, construction of workforce and affordable housing, certain transit-oriented development, and projects promoting strong neighborhoods." In addition, SB 5 will help to leverage billions in Federal, Local, and private funds.

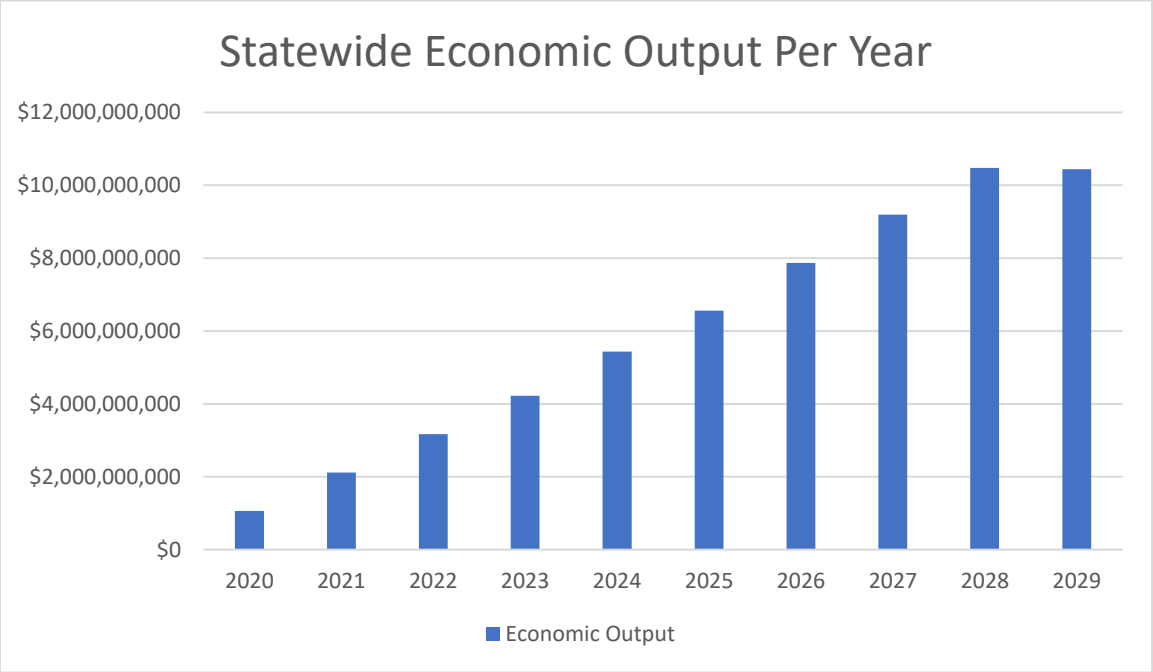
In collaboration with the California Housing Partnership, the research department of the Northern California Carpenters Regional Council (NCCRC) analyzed the economic impacts through 2029 of the proposed legislation. The NCCRC is affiliated with the United Brotherhood of Carpenters and represents more than 30,000 carpenters and affiliated craftspeople throughout Northern California.

Together with nearly $28 billion in additional leveraged funds (including over $10 billion in Federal housing funds), the impacts of the investment of up to $11.5 billion[2] through 2029 are summarized below:

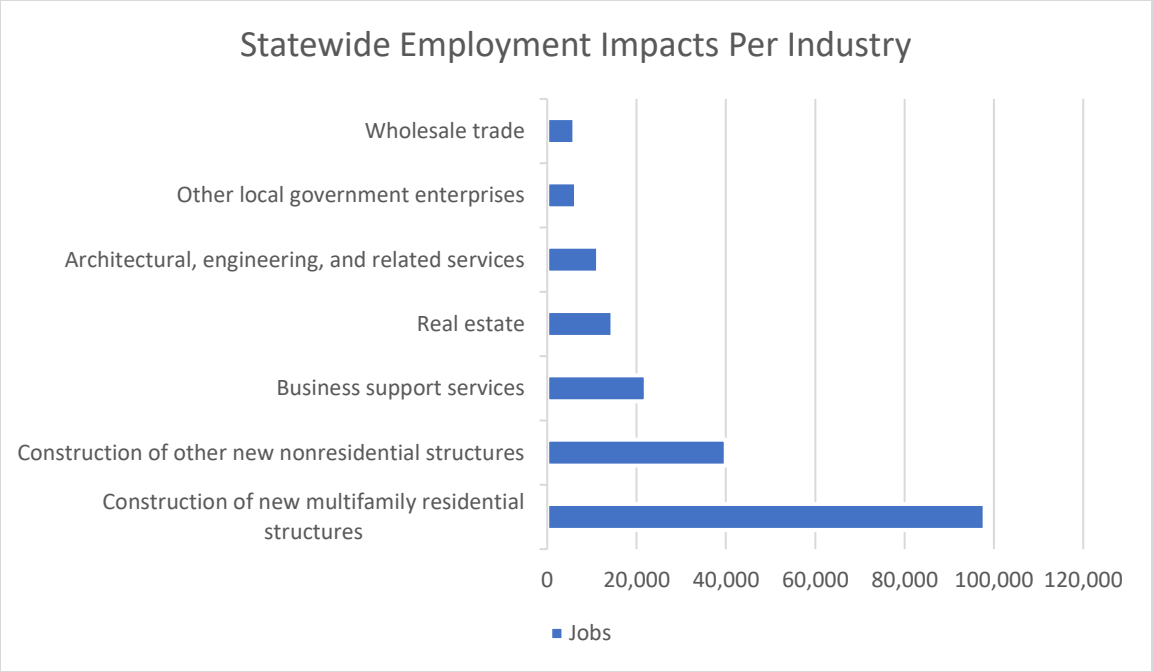
- **Over 86,000 new and rehabilitated housing units[3]**
- **329,000 jobs**
- **$23 billion in labor income**
- **More than $60 billion in economic activity**
- **$2.5 billion in additional state and local tax revenue**

The financial returns to the state's economy produced by the Local-State Sustainable Incentive Program will go beyond direct program expenditures because the state's investment will be leveraged through

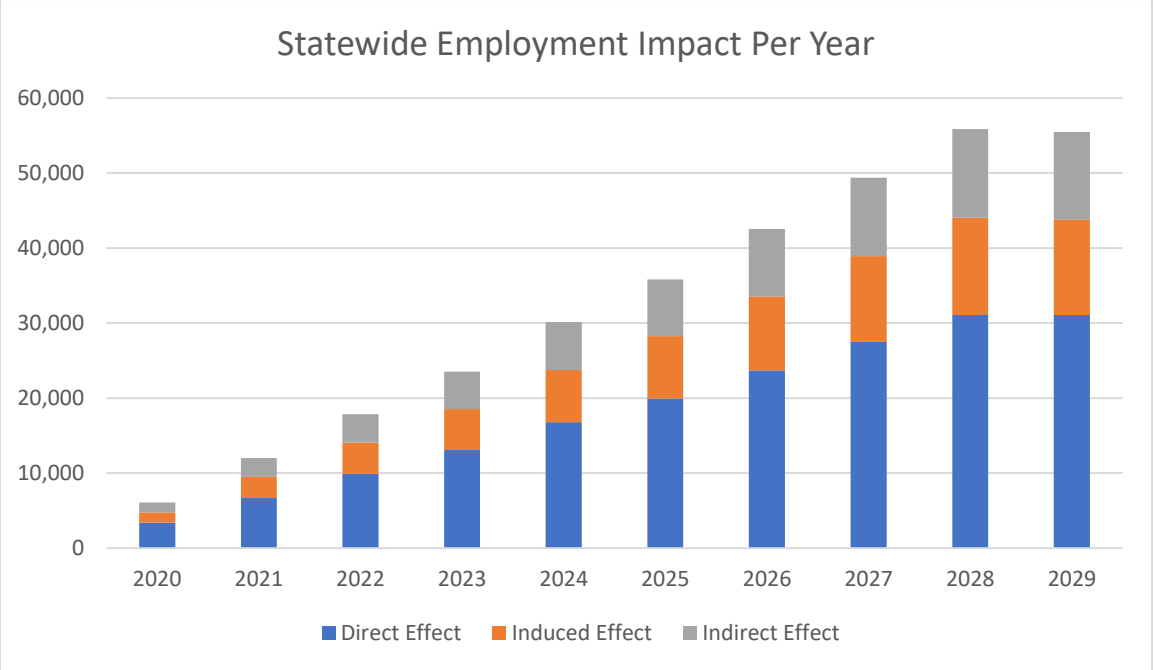
Federal Low-Income Housing Tax Credits, local funds, and private investment. Based on experience with the Affordable Housing and Sustainable Communities Program (AHSC), the state's direct investment of up to $11.5 billion over the next decade is expected to be leveraged over three times to add an additional $28 billion into California's economy. These investments will translate into over $60 billion in economic activity through 2029.[4]



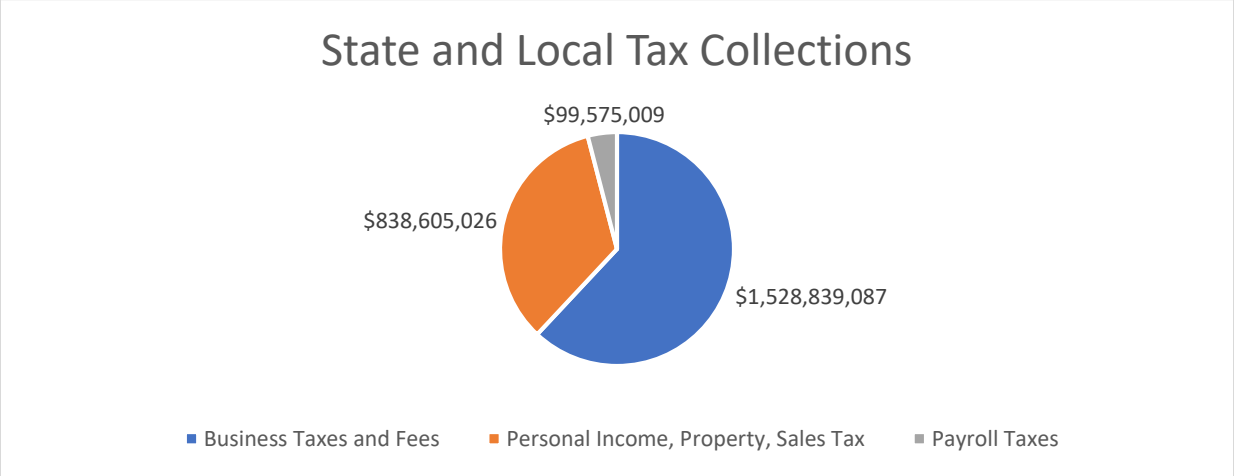
Development and construction of over 86,000 housing units and associated infrastructure projects will support nearly 329,000 jobs across the State through 2029. Up to 138,000 construction jobs at family supporting prevailing wages with health care and retirement benefits will comprise nearly 65% of the direct employment impact. Thanks to California's robust public works apprenticeship requirements, projects receiving Local-State Sustainable Incentive Program funds will open workforce training pathways for persons beginning their construction careers.



In addition, these potential investments will create an additional 145,000 jobs from vendors and suppliers in supporting industries (indirect effects) as well as throughout the economy as a result of household spending (induced effects) from directly created jobs radiating outward through California's economy.



State and local governments should expect increased tax and fee collections as a result of economic and job growth from the Local-State Sustainable Incentive Program. Estimated state and local tax impacts from both direct and leveraged expenditures are over $2.5 billion through 2029.



This analysis was performed using the IMPLAN input-output model, the industry standard for economic impact analysis. Input-output analysis measures the inter-industry relationships within an economy. Specifically, input-output analysis is a means of measuring the market transactions between businesses and between businesses and consumers. The IMPLAN model allows for the examination of how a change in one sector affects the entire economy. In this way, input-output analysis analyzes the economic effects of additional housing and infrastructure investments by measuring the multiplier, or ripple effect, as an initial change in one industry stimulates further changes in transactions between other businesses and households. The results are adjusted for inflation.

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[1] SB 5, Sections 55906 (a)(1)(2).

[2] This analysis assumes 75% of direct funds will be allocated to housing, with the remaining 25% to infrastructure and associated projects. Assumptions are derived from an analysis of the Affordable Housing and Sustainable Communities Program

[3] Assumes $100,000 of direct State subsidy per housing unit

[4] Leverage estimates are based on program-level historical levels of the Affordable Housing and Sustainable Communities Program. Cost allocations for construction impacts are derived from the 2014 California Affordable Housing Cost Study prepared for the California Department of Housing and Community Development ("HCD"), the California Tax Credit Allocation Committee ("TCAC"), the California Housing Finance Agency ("CalHFA"), and the California Debt Limit Allocation Committee ("CDLAC"). Land purchases, comprising 9% of affordable project costs according to the TCAC report, are excluded from the impact analysis since the purchase of land does not have intrinsic economic value.